



交銀國際控股有限公司
BOCOM International Holdings Company Limited

(Incorporated in Hong Kong with limited liability)
Stock code: 3329

Annual Report 2017

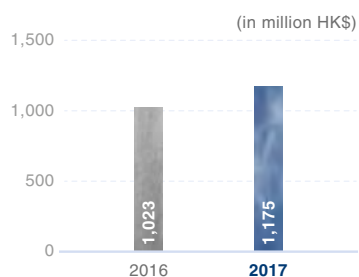


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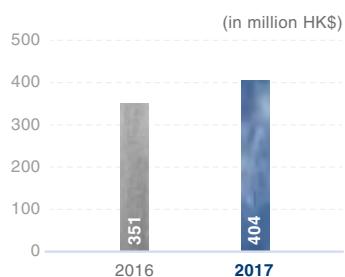
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Financial Highlights

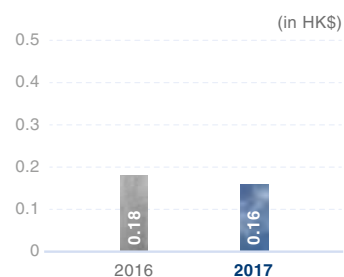
Revenue



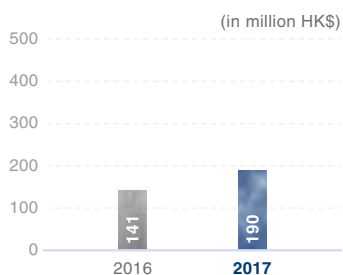
Profit attributable to Shareholders of the Company



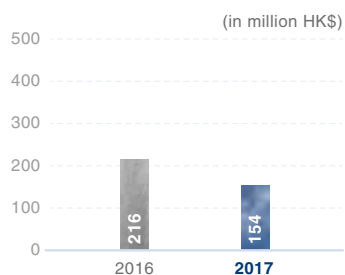
Basic/Diluted earnings per share



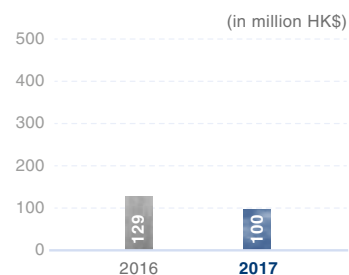
Brokerage



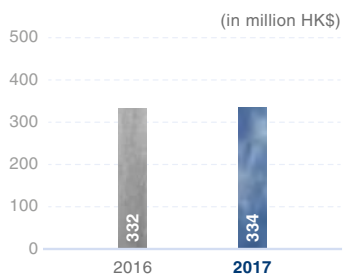
Corporate finance and underwriting



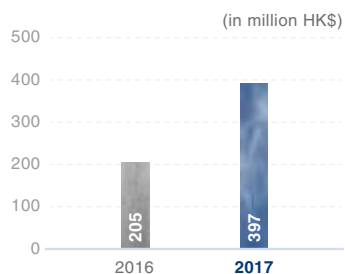
Asset management and advisory



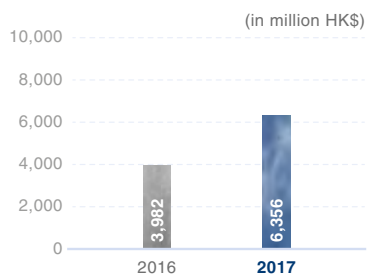
Margin financing



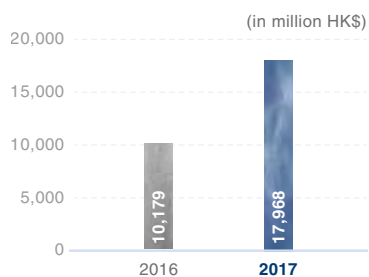
Investment and loans



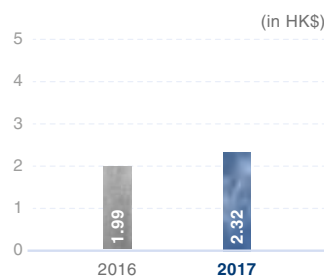
Shareholders' equity – attributable to Shareholders of the Company



Total assets



NAV per share – attributable to Shareholders of the Company



Financial Summary

	For the year ended 31 December			
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
RESULTS				
Revenue	753,950	1,093,578	1,023,269	1,174,949
Profit attributable to owners of the Company	23,677	350,238	350,609	403,907
Retained earnings carried forward	1,294,560	1,644,798	1,995,407	2,399,314
	At 31 December			
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES				
Current assets	6,096,498	7,117,829	6,890,148	12,886,591
Total assets	6,373,317	8,796,350	10,179,283	17,968,322
Current liabilities	2,871,160	3,709,829	4,896,640	11,608,077
Total liabilities	3,071,160	5,151,410	6,193,165	11,608,207

The results of the Group for the three financial years ended 31 December 2014, 2015 and 2016 and its assets and liabilities were extracted from the prospectus of the Company dated 5 May 2017.

CHAIRMAN'S STATEMENT



Tan Yueheng
Chairman



MACRO ENVIRONMENT AND MARKET REVIEW

In the year of 2017, a broad-based recovery was underway across the world, despite market risks and fluctuations. The US economy was overall stable, supported by robust endogenous growth. The FED has been on its path of balance sheet reduction. The benchmark interest rate was raised three times in 2017, in line with market expectation. Donald Trump's tax reform plan was finally approved after going through an eventful process. Eurozone economic recovery has been gaining momentum. Political risks have been eased, whereas the economic growth still largely relied on quantitative easing monetary policy. Japan's economy grew steadily and its GDP has expanded for seven straight quarters. Abenomics has been progressing well on track, as the inflation crept up slowly.

China's economic growth remained steady, accompanied by improving quality. China's GDP grew by 6.9% in 2017, accelerating for the first time in seven years. Emerging industries accounted for larger proportion of industry added value, and economic expansion was gaining new momentum. Systemic risk and debt default risk have been effectively controlled, and the growth rate in broad money supply M2 fell below 10%. The 19th National Congress delineated a new blueprint for reform and proposed the construction of a modern economic system. China's economy has shifted from a phase of rapid growth

to a period of high-quality development. In the Central Economic Work Conference, preventing major financial risks, targeted property alleviation and pollution control were set to be “three tough battles”. The cross-border capital flows stabilized in 2017. Foreign reserves increased by USD129.4 billion from the end of 2016. RMB rose by nearly 6.2% against USD in 2017, ending the depreciation trend since three years ago.

The Hong Kong stock market has outperformed other major stock markets in the year of 2017 and the Hang Seng index closed at 29,919 at the end of 2017, rising by 36% from end of last year. The average daily turnover was HK\$88.2 billion for the whole year, up by 32% YoY. There were 174 companies newly listed in 2017, an increase of 38% over last year. However, dragged by the lack of super-size IPOs, the total equity financing amount registered a YoY decline of 34% with only HK\$128.2 billion in 2017 while the Stock Exchange dropped from the first place back to the third place in the worldwide ranking of IPO proceeds. Meanwhile, the funds inflows and outflows via the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect Schemes have accelerated significantly to elevate the bull market in Hong Kong.

BUSINESS REVIEW AND ANALYSIS

Last year was a year when the capital market in Hong Kong boosted exponentially, and also a year the Group successfully transformed and reached another new stage to make a mark on our historical timeline. The Group is a well-established and the only integrated platform for securities and related financial services of BOCOM in Hong Kong, one of the state-owned joint stock commercial banks, founded in 1998 and was one of the earliest licensed securities firms with PRC background in Hong Kong. The Group has weathered many economic and industry cycles and experienced various regulatory reforms, and has grown to become one of the largest securities firms specializing in securities and brokerage, margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses, etc in Hong Kong. On 19 May 2017, the Company was successfully listed on the Hong Kong Stock Exchange, becoming the first listed securities firm owned by a Chinese bank in Hong Kong and the IPO helped the company enter the international capital market with a brand-new appearance, representing an important milestone in the deepening reform of the Group and even that of the BOCOM Group.

In September 2017, the Company was pleased to be selected for inclusion in the Hang Seng Composite Index and its subdivisions of Hang Seng Composite Industry Index – Financials, Hang Seng Composite MidCap & SmallCap Index, Hang Seng Composite SmallCap Index and Hang Seng Global Index, and became one of the Shenzhen-Hong Kong Stock Connect Eligible Stocks. The Company is also a constituent of the MSCI Hong Kong Small Cap Index. These reflect the recognition and confidence the capital market has in the Group's business, liquidity of stock and development prospect.

During the Year, the Group obtained more than 30 awards in various sectors, including 18 awards (including the No.1 Best Hong Kong Strategist and the No.1 Best Hong Kong Economist for 2017) to the research team of the Company by Asiamoney; the Top Investment Houses in Asian G3 Bonds for 2017 and the Best Bond (the Group's sovereign bond issuance project for the countries under the Belt and Road Initiative) of Triple A Country Awards for 2017 by The Asset.



Chairman's Statement

In 2017, the Group made encouraging progress in a number of aspects including structural adjustment, asset portfolio, risk management, corporate governance and information technology, laying a solid foundation for future development. At the same time, we strive for innovation and are eager to make progress by promoting the in-depth integration of the Internet, big data, artificial intelligence and the real economy in a comprehensive scale. In 2017, the Company and FDT AI Limited entered into a strategic cooperation agreement, opening up our Group's new chapter to utilize new technology and to innovate our business model. With the deepening of smart technology in the financial sector, it is believed that artificial intelligence will consolidate and expand the profitability of the Group's core assets.

With the concerted effort of all colleagues, the Group achieved great operation results in 2017, and the revenue of the Group amounted to HK\$1.175 billion, representing an increase of 15% YoY. As at 31 December 2017, the total assets of the Group amounted to HK\$17.97 billion, representing a substantial increase of 76.5% YoY. The Board recommended the payment of a final dividend of HK\$0.08 per Share to repay Shareholders' support for the Group.

OUTLOOK AND STRATEGY

With the global economic growth in 2017 admittedly being the fastest since 2011 and expected to continue in 2018, mainland China will play a major role in the global economic development. Looking forward, given Hong Kong's close relations with mainland China, it will benefit from mainland China's robust economic growth, especially for the financial markets, and the increasing cross-border financial and fund-raising activities of the mainland China's enterprises will further strengthen Hong Kong's position in global IPO market.

The year of 2018 is the beginning year and a critical moment for China to implement what is stated in the 19th National Congress. With the economic growth less reliant on property but more on consumption, a well-ordered economic slowdown will likely be observed. As off-balance-sheet deleveraging proceeds, credit growth will continue to decelerate, and market interest rates will stay elevated. Meanwhile, corresponding assets will have to be liquidated. In such an environment of liquidity constraints, the improving process of China's economic quality will accelerate. The structure of economic momentum will change, and the consumption will contribute more than investment to GDP growth. Growth of tertiary industry will continue to exceed that of secondary industry with new opportunities arising in the service sector. Supply-side reform will speed up efforts to upgrade the industry structure and enhance the concentration unceasingly, resulting in efficiency improvement in production. Dramatic expansions in digital economy as well as Internet+ will provide golden opportunities for the leading innovative companies.

From a global perspective, the political and economic pattern will recover but with uncertainties. With the enactment of tax reform, the US economy is expected to be on track of solid growth and inflation will approach the FED's target. The market consensus expects three more interest hikes in 2018 whereas we have to be vigilant to the risk of interest rate hiking too fast. The positive momentum of economic growth and inflation rebound in Eurozone is expected to have carried over and European Central Bank will likely gradually exit from quantitative easing as early as 2018. Despite its fiscal stimulus, tax cuts as well as Olympic investment to support domestic demand, the recovery of Japan's externally-oriented economy may slow down considering the soaring international energy prices. In addition, the geopolitical tensions in Israel and North Korea, the uncertainties from the forthcoming elections in Italy, Ireland, Brazil and Russia and the rise of global trade protectionism will force us to take extra precautions against the sudden "black swan events".

Being the international flagship of the BOCOM Group, the Group will be committed to creating a large and vibrant international financial service platform. We shall follow the strategies of the nation's "Belt and Road" and "Greater Bay Area" development policies and seize available opportunities arising from the amendments to the Listing Rules and internet finance. Relying on the economic development in China and the prosperous Hong Kong capital market, we will continually develop and strengthen the securities brokerage, corporate finance and underwriting and asset management businesses. We intend to enrich our product portfolio, strengthen our infrastructure and improve our customer experience in order to steadily increase the market share of our principal businesses. We also aim to further develop a suite of "capital-based" businesses and mergers and acquisitions ("M&A") advisory business that will be complementary to our principal business lines. In this year, we are committed to further promoting the upgrade of infrastructure in terms of financial technology and improving our operation, with greater effort on our self-inspiring and prudent internal control, a more progressive and proactive approach as well as a more efficient and well-coordinated team to assist mainland corporates to expand and prosper. At the same time, we also offer a vast range of capital market services and products, aiming to become a comprehensive securities and financial services institution with sustainable development capabilities that provide integrated financial services to meet the needs of global customers, as well as striving to create values for clients and shareholders.

TAN Yueheng

Chairman

Hong Kong, 27 March 2018

Management Discussion and Analysis

As one of the earliest licensed securities firms with a PRC background in Hong Kong, we are one of the largest securities firms specializing in securities brokerage and margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses. We believe that one of our core comprehensive strengths is our ability to offer comprehensive and integrated financial services and products that fulfill various investment and wealth management needs of clients.

RESULTS OVERVIEW

In 2017, the Group had benefitted from a buoyant stock market as well as a steady expansion and development of business co-operation with the BOCOM Group. The total revenue of the Group increased from HK\$1,023.2 million to HK\$1,174.9 million; the Group's profit was approximately HK\$403.5 million, representing an increase of approximately 15% over HK\$350.9 million for 2016.

The board of directors recommended the payment of a final dividend of HK\$0.08 per Share for the Year.



BUSINESS REVIEW

Securities Brokerage and Margin Financing

Our securities brokerage business includes executing trades on behalf of clients in stocks, bonds, futures, options and other marketable securities. Trading of various securities products, with primary focus on stocks of companies listed on the Stock Exchange, and other types of securities, including eligible A shares under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, B shares of listed companies on the PRC stock exchanges, US stocks and bonds as well as futures and other exchange-tradable securities. Futures and options contract products include Hang Seng Index futures and options, mini-Hang Seng Index futures and options, H-shares index futures and options, mini-H-shares index futures and options and stock options.

Propelled by the improved global economic situation and monetary easing measures, the Hong Kong stock market staged a strong rally in 2017. The Hang Seng Index closed at 29,919.15, representing a year-on-year increase of 36%, the largest annual increase since 2009. The average daily turnover in 2017 was HK\$88.2 billion, representing an increase of 32% from HK\$66.9 billion in 2016. Contributed by the enhancement of our trading system and improvement of our client base, the group has outperformed the market. Our market share increased and our trading value recorded a growth of 54% from HK\$156.1 billion to HK\$240.7 billion.

Benefiting from the above, our commission and fee income from the securities brokerage business recorded an increase from HK\$140.8 million to HK\$190.3 million representing a growth of 35.2% as compared to the year ended 31 December 2016.

The following table sets forth a breakdown of the commission by product types of our securities brokerage business for the years indicated below:

	2017		2016	
	HK\$' million	%	HK\$' million	%
Hong Kong stock	161.5	84.9	120.8	85.8
Non-Hong Kong stock	10.8	5.7	4.6	3.2
Bonds	7.4	3.9	7.0	5.0
Others	10.6	5.5	8.4	6.0
	190.3	100.0	140.8	100.0

Management Discussion and Analysis

Our margin financing business includes offering collateralized financing relating to securities transactions to retail, corporate and high-net-worth customers.

For the Year under review, our margin client portfolio continued to expand. The year-end loan balance and monthly average loan balance increased compared with last year. Both the margin value and market value of collateral also increased. With improved quality and quantity in margin financing business, interest income from margin loans for the Year remained stable at HK\$333.7 million as compared to HK\$331.9 million for 2016.

The following table sets forth a summary of key operating and financial information of our margin financing business in Hong Kong for the years indicated below:

	2017	2016
Number of margin accounts	6,657	6,254
Balance of margin loans (HK\$' million)	6,416.8	5,123.3
Monthly average balance	4,994.0	4,735.4
Highest month end balance	6,416.8	5,123.3
Lowest month end balance	4,836.8	4,285.3
Margin value (HK\$' million) <i>(note 1)</i>	5,146.9	4,055.4
Market value (HK\$' million) <i>(note 2)</i>	20,047.4	16,932.7

Notes:

- 1 Margin value refers to the market value of the securities pledged as collateral for margin loans multiplied by a collateral discount ratio for each individual security.
- 2 Market value refers to the value of the securities pledged as collateral for margin loans at the real-time price of each individual security.

We continue to adopt a prudent approach and closely monitor our margin loans and review margin loan (including the quality and value of collaterals) at regular intervals for impairment assessment. During the Year, we have made a provision of HK\$19.8 million (2016: HK\$8.3 million), including a HK\$11.0 million full provision for a margin loan with a collateral stock suspended from trading.

Corporate Finance and Underwriting

Our corporate finance and underwriting business includes IPO sponsorship and financial advisory, equity underwriting and placing and debt underwriting services. We provide comprehensive and integrated corporate finance and underwriting solutions to the PRC and Hong Kong clients, as well as international corporate clients. In respect of IPO sponsorship services, we primarily focus on clients which are relatively more established companies qualified for listing on the Main Board of the Stock Exchange. We also provide a broad range of financial advisory services including general financial advisory services, local and cross-border mergers and acquisitions advisory services, debt and equity capital raising advisory services and compliance advisory services to listed companies in Hong Kong.

According to the latest statistics of the Stock Exchange, including transfer of listing from GEM to Main Board, there were 174 companies newly listed during the Year, representing an increase of 38.1% from 126 in 2016. The funds raised by IPOs dropped by 34.4% from HK\$195.3 billion to HK\$128.2 billion for the Year as the average deal size decreased to the lowest level in the past decade due to a lack of mega IPOs. Hong Kong ranked as the third largest globally in terms of funds raised as compared to the top IPO ranking in 2016. Nevertheless, the Hong Kong dollar debt market continued to expand, with total gross issuance grown by 9.3% to \$3,335.3 billion.

For the Year under review, in respect of equity underwriting and placing services, we acted as global coordinator and/or bookrunner for 5 IPO projects, 3 of which we also acted as sponsor, and as placement agent for 1 equity placement project. In respect of debt capital market, we had completed 22 debt underwriting transactions for financial institutions, corporate and government authorities in Hong Kong, the PRC and overseas. Our commissions and fee income from corporate finance and underwriting services was HK\$154.1 million for the Year as compared to HK\$216.5 million for 2016 as a result of reduction in average deal size in 2017.

During the Year, we have received a number of awards, including the Best Bond (the Group's sovereign bond issuance project for the countries under the Belt and Road Initiative) of Triple A Country Awards for 2017 by the Asset. For details, of other awards, please refer to the section headed "Awards" of this annual report.

Asset Management and Advisory

Our asset management and advisory services comprise mutual fund management, specialized asset management, private equity fund management and investment advisory. The Group operates its RMB private equity funds and provides investment advisory services in the PRC through BOCOM International (Shanghai) .

Management Discussion and Analysis

During the Year, we managed one umbrella fund comprising three sub-funds. As at 31 December 2017, the total amount of AUM was approximately HK\$27,137.9 million, representing an increase of approximately 96% from HK\$13,843.3 million as at 31 December 2016. During the Year, asset management and advisory fee income was approximately HK\$99.8 million which comprised of management fee income of HK\$83.7 million (a decrease of approximately 22% from HK\$107.4 million for 2016) and advisory fee income of HK\$16.1 million.

Investment and Loans

Our investment and loans business comprises investment in various equity and debt securities as well as public and private funds on a proprietary basis, and structured financing and loans to enterprises to meet various financing needs.

We aim to achieve a balance between mitigating investment risk and obtaining investment returns. We generally prefer fixed income securities of high quality and better return such as securities issued by established PRC state-owned enterprises and companies from the financial sector; and focus on value investing and growth industries such as telecommunication, media and technology (“TMT”), healthcare, high-end manufacturing and consumer goods. Investment decisions are made based on assessment of various factors including the business, financial condition, liquidity and prospects of issuers, terms of fixed income securities and credit ratings (if any). The Company conducts its direct equity investment business in the PRC through its subsidiaries, BOCOM International (Shanghai) and BOCOM International Equity Investment Management (Shenzhen) Company Limited.

During the Year, interest income from loans and advances was HK\$36.0 million, representing an increase of approximately 3.7% as compared to HK\$34.7 million for 2016. Proprietary trading income in 2017 was HK\$361.1 million which represented a substantial increase of 112.5% as compared to 2016.

The table below sets forth our investment position by asset type for our equity and fixed income investment business for the years indicated below:

	2017		2016	
	HK\$' million	%	HK\$' million	%
Fixed income securities	5,241.0	72.0	3,453.8	91.4
Bonds	3,119.2	42.9	2,021.4	53.5
Preference shares	2,062.3	28.3	1,381.3	36.5
REIT(s)	59.5	0.8	51.1	1.4
Equity investments	1.6	0.0	127.7	3.4
Funds	2,036.8	28.0	195.3	5.2

Research

Our research team has built a solid track record in comprehensive analyses of global financial markets, sector and company-specific fundamentals, gaining a high level of reputation among institutional investors in Hong Kong, China and overseas markets. Our research team not only provides extensive professional services to fund managers and institutional investors, but also introduces potential investors to clients enabling the Group to gain greater market awareness and enhance corporate image. As of 31 December 2017, our research team was composed of more than 40 strategy and industry analysts and professional staff in Hong Kong, Beijing and Shanghai covering around 150 listed companies across various sectors, including banking, non-bank financial, real estate, gaming, leisure, internet, technology, consumer staples, consumer discretionary, automobile, transportation, industrials, infrastructure, renewable energy, environmental and healthcare.

In 2017, our research team issued a total of 1,528 research reports in both Chinese and English. Meanwhile, our research team actively provided roadshow services for clients and organized surveys, studies as well as management conferences. Besides, we organized the 2017 second half-year and the 2018 Equity Outlook Press Conference in Hong Kong, Beijing and Shanghai to analyze the global and China macro environment, market trends, investment strategies as well as sector developments. In the conference, our research team also made investment recommendations on key stocks and conducted in-depth interactions with domestic and international mainstream financial media.

Our research team continued to win awards from prominent international institutions and won 18 awards including the No. 1 Best Hong Kong Strategist and the No. 1 Best Hong Kong Economist for 2017 by Asiamoney). For other awards information, please refer to the “Awards” section of this annual report.

FINANCIAL REVIEW

Revenue and profit for the year

The Group’s revenue for the Year was approximately HK\$1,174.9 million, representing an increase of approximately 14.8% over HK\$1,023.2 million for the year ended 31 December 2016.

The following table sets out the breakdown of the revenue by segment for the year ended 31 December 2017 and 2016 respectively:

	Year ended 31 December			
	2017		2016	
	HK\$'million	%	HK\$'million	%
Brokerage	190.3	16.2	140.8	13.8
Corporate finance and underwriting	154.1	13.1	216.5	21.2
Asset management and advisory	99.8	8.5	129.4	12.6
Margin financing	333.7	28.4	331.9	32.4
Investment and loans	397.0	33.8	204.6	20.0
Total	1,174.9	100.0	1,023.2	100.0

Management Discussion and Analysis

The Group's profit for the Year was approximately HK\$403.5 million, representing an increase of approximately 15% over HK\$350.9 million for 2016.

Operating expenses

Operating expenses and finance costs for the Year amounted to HK\$785.4 million (2016: HK\$659.4 million), an analysis of which is listed below:

	Year ended 31 December			
	2017		2016	
	HK\$'million	%	HK\$'million	%
Commission and brokerage expenses	75.2	9.6	59.9	9.1
Finance costs	133.0	16.9	99.7	15.1
Staff costs	276.8	35.3	243.2	36.9
Depreciation	8.7	1.1	10.3	1.5
Other operating expenses	211.3	26.9	199.7	30.3
Impairment losses	80.4	10.2	46.6	7.1
	<u>785.4</u>	<u>100.0</u>	<u>659.4</u>	<u>100.0</u>

Due to increase in brokerage revenue, commission and brokerage expenses increased accordingly.

Finance costs increased by 33.4% due to the upward adjustment of the base rate by the Hong Kong Money Authority and the expansion of the investment and loan business.

Staff costs increased by 13.8% as a result of investment in human resources.

Depreciation was relatively stable.

Other operating expenses increased by 5.8% mainly due to one-off listing expenses of HK\$29.6 million.

Impairment losses included HK\$60.6 million of adjustment of receivables to the corporate finance and underwriting business for the Year and HK\$19.8 million of impairment provision of margin finance receivables.

Liquidity, Financial Resources and Gearing Ratio

The Group's cash and bank balances as at 31 December 2017 increased by HK\$1,366.2 million to HK\$1,870.3 million (31 December 2016: HK\$504.1 million).

The Group's net current asset decreased by HK\$715.0 million to approximately HK\$1,278.5 million as at 31 December 2017 from HK\$1,993.5 million as at 31 December 2016. The current ratio, being the ratio of current assets to current liabilities, was approximately 1.1 times as at 31 December 2017 (31 December 2016: 1.4 times).

As at 31 December 2017, the Group had borrowings of HK\$10,068.2 million (31 December 2016: HK\$4,848.0 million) while the subordinated loans from the ultimate holding company amounted to HK\$1,000.0 million (31 December 2016: HK\$1,000.0 million).

As at 31 December 2017, the Group's gearing ratio was 174.0% (31 December 2016: 146.7%), as calculated by dividing total borrowings by total equity.

The Directors are of the view that the Group has maintained adequate liquidity for business operations and any investment opportunities that may arise in the near future.

Capital Structure

The Group finances its working capital requirements by cash generated from business operations and bank loans (including loans from BOCOM). Our capital structure consists of share capital and reserves.

Principal Risks

The Group faces a number of principal risks and uncertainties that if not properly managed could create an exposure for the Group. Thorough risk assessment and mitigation help ensure these risks are well managed and governed effectively. The Group focuses on addressing the following principal risks:

Currency Risk

The Group has certain transactions denominated in foreign currencies and is therefore exposed to exchange rate fluctuations. Our currency risk exposure mainly lies in RMB and USD at present. The exchange rate of the Hong Kong dollar against USD is relatively stable under the current pegged rate system in Hong Kong.

Interest Rate Risk

Our interest rate risk relates primarily to margin loans to customers, loans and subordinated loans and investments in debt securities. The Group has set up asset portfolio management system and monitored risk exposure regularly to mitigate the interest rate risk by diversification of assets and quantifying market exposure in duration terms.

Credit Risk

Our credit risk arises from the possibility that our clients or counterparties for a transaction may default. The Group has a range of credit policies and practices in place to mitigate such risk and ensure such risk is monitored on an ongoing basis.

Liquidity Risk

Our businesses rely on sufficient funds to pay due debts, perform payment obligations and satisfy the capital requirements. The Group has implemented internal measures to monitor the liquidity risk and the foreseeable funding requirements to enable certain subsidiaries of the Company that are regulated under the SFO to continuously comply with the relevant rules and regulations.



Management Discussion and Analysis

Operational Risk

Our operation risk arises from direct or indirect financial loss resulting from incomplete or irregular internal processes, personnel mistakes, information technology (“IT”) system failures, or external events. The Group has implemented a range of internal control and other measures and plans to mitigate such risk.

Market Risk

Our market risk includes currency risk, interest rate risk, and other price risk. The Group has implemented measures to manage and monitor such risk in order to keep potential losses within an acceptable level and maximize returns.

Material Acquisitions, Disposals and Significant Investments

During the Year, there was no material acquisition or disposal of subsidiaries, associated companies or joint ventures by the Group.

Charges on Group Assets

As at 31 December 2017, preference shares with market value of HK\$430.4 million, under the available-for-sale investments, were pledged to a bank to secure a loan for the acquisition of part of such preference shares by Preferred Investment Management Limited, a subsidiary of the Company (31 December 2016: HK\$428.0 million).

Capital Commitments

As at 31 December 2017, the Group had no significant capital commitment.

Employees and Remuneration Policies

As at 31 December 2017, the Group had a total of 312 employees. Total staff costs amounted to approximately HK\$276.8 million for the Year.

The Group continuously refines its remuneration and incentive policies to boost business development and ensure employees (including Directors) receive competitive remuneration packages. The remuneration of the Directors are determined with reference to their duties, responsibilities, experience and to the prevailing market conditions. Mandatory provident fund scheme and insurance packages have been provided to employees in accordance with local laws and regulations. We conduct performance evaluations of our employees annually to provide feedback on their performance.

We systematically provide comprehensive and diverse trainings to improve the professional skills of our employees. Employees are subsidised for participating in training courses which keep them abreast of the latest industry and technical developments.

Contingent liabilities

During the Year, the Group had certain contingent liabilities arising in the ordinary course of business. Please see Note 37 to the consolidated financial statements of this annual report for details.

Use of Proceeds from the Listing

On 19 May 2017, the Company issued 666,680,000 Shares at HK\$2.68 per Share pursuant to IPO of the Shares for total gross proceeds of approximately HK\$1,786.7 million and the Shares were listed on the Main Board of the Stock Exchange. On 14 June 2017, the Company issued 67,712,000 Shares at HK\$2.68 per Share for total gross proceeds of approximately HK\$181.5 million pursuant to the partial exercise of the over-allotment option in relation to the Listing.

The net proceeds from the Listing after deducting underwriting fees and commissions and expenses in connection with the Listing, were approximately HK\$1,879.2 million. As at 31 December 2017, the Company utilised approximately 73% of the net proceeds for the purposes as set out in the section headed “Future Plans and Use of Proceeds – Use of Proceeds” in the Prospectus.

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 31 December 2017 is set out below:

Application/Intended application	Net proceeds from the Listing (HK\$'million)	Utilised amount as at 31 December 2017
1. Expand margin financing business	845.7	845.7
2. Expand asset and management and advisory business	281.9	109.7
3. Expand investment and loans business	187.9	187.9
4. Develop IT infrastructure and internal control systems	187.9	3.3
5. Attract and retain talent as well as optimizing human resources structure	187.9	33.5
6. Working capital and general corporate purposes	187.9	187.9
Total	1,879.2	1,368.0

Corporate Information

BOARD OF DIRECTORS

Executive Directors

TAN Yueheng (*Chairman*)
LI Ying (*President*)
CHENG Chuange (*Deputy Chief Executive Officer*)

Non-executive Directors

WANG Yijun
LIN Zhihong
SHOU Fugang

Independent Non-executive Directors

TSE Yung Hoi
MA Ning
LIN Zhijun

BOARD COMMITTEES

Executive Committee

TAN Yueheng (*Chairman*)
LI Ying
CHENG Chuange
XI Xuanhua*

Audit and Risk Management Committee

LIN Zhijun (*Chairman*)
LIN Zhihong
TSE Yung Hoi

Remuneration Committee

TSE Yung Hoi (*Chairman*)
SHOU Fugang
MA Ning
LIN Zhijun

Nomination Committee

TAN Yueheng (*Chairman*)
WANG Yijun
TSE Yung Hoi
MA Ning
LIN Zhijun

JOINT COMPANY SECRETARIES

YI Li
KWONG Yin Ping, Yvonne

AUTHORISED REPRESENTATIVES

CHENG Chuange
KWONG Yin Ping, Yvonne

REGISTERED OFFICE

9/F, Man Yee Building, 68 Des Voeux Road Central,
Hong Kong

LEGAL ADVISER

As to Hong Kong Laws

Freshfields Bruckhaus Deringer

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Haitong International Capital Limited

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd. Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
Industrial Bank Co., Ltd. Hong Kong Branch
Agricultural Bank of China, Hong Kong Branch
China CITIC Bank International Limited
OCBC Wing Hang Bank Limited
Dah Sing Bank
China Construction Bank (Asia) Corporation Limited

STOCK CODE

HKEX	3329
Reuters	3329.HK
Bloomberg	3329 HK

COMPANY WEBSITE

www.bocomgroup.com

* Ms. XI Xuanhua is a Deputy Chief Executive Officer of the Company.

Biographies of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

TAN Yueheng, aged 55, is the Chairman and an Executive Director of the Company. He was appointed as a Director of the Company in February 2007 and the Vice Chairman of the Company in June 2007. Since July 2016, he has served as the Chairman of the Company. In October 2016, he was re-designated as an Executive Director of the Company. Prior to joining the Group, Mr. TAN served as the deputy general manager of Jiang Nan Finance Limited from 1997 to 2002, deputy general manager of CMB International Capital Corporation Limited from 1997 to 2002, director of Great Wall Securities Limited from 1998 to 2002, deputy general manager of China Merchants Finance Holdings Company Limited from 2002 to 2007, the chairman of the Supervisory Board of China Merchants Securities Co., Ltd. from 2003 to 2007 and a non-executive director of China Merchants Bank from 2004 to 2007.

Mr. TAN graduated from Hunan Institute of Finance and Economics with a bachelor's degree in Finance in July 1983. He also obtained a master's degree in Economics, with a major in Money and Banking from the Graduate School of the People's Bank of China in July 1986 and a doctorate degree in Economics from the Graduate School of Chinese Academy of Social Sciences in December 1989. Mr. TAN is also the chairman of the Chinese Securities Association of Hong Kong and a member of the Chinese People's Political Consultative Conference Gansu Provincial Committee.

LI Ying, aged 46, is the President and an Executive Director of the Company. He joined the Group in January 2015 and was appointed as a Director of the Company in June 2015. In October 2016, he was re-designated as an Executive Director of the Company. Prior to joining the Group, Mr. LI served as the deputy chief executive officer and a director of ICBC International Holdings Limited from 2009 to 2014. From 1998 to 2009, Mr. LI held various positions in the head office of the Industrial and Commercial Bank of China, including deputy general manager of the joint-stock reform office and deputy general manager of the department of corporate strategy and investor relationship.

Mr. LI graduated from the School of Finance of Renmin University of China with a bachelor's degree in Economics in July 1993 and obtained a master's degree in Economics from the same university in July 1995. He also received a doctorate degree in Economics from Renmin University of China in June 1998.

CHENG Chuange, aged 53, is the Deputy Chief Executive Officer and an Executive Director of the Company. He joined the Group in July 2007 and was appointed as the Deputy Chief Executive Officer in March 2010 and as a Director of the Company in June 2010. In October 2016, he was re-designated as an Executive Director of the Company. Prior to joining the Group, Mr. CHENG served as a director of Concorde Securities Limited from December 2001, the deputy general manager from November 2003 and the vice president from February 2005. From 1995 to 2003, Mr. CHENG worked in various financial institutions, including participating in the setting up of Shenzhen City Commercial Bank and holding various positions in the bank since 1995; serving as the general manager in the planned fund department and the assistant to the president of the Guangzhou branch of China Everbright Bank since 1997 and 1998 respectively; and participating in the establishment of the southern headquarters of Three Gorges Securities Company Limited from November 2000 to November 2001 and serving as the general manager of the southern headquarters from September 2001 to September 2003.

Biographies of Directors and Senior Management

Mr. CHENG graduated from Zhengzhou University in the PRC with a bachelor's degree in Philosophy in June 1987. He obtained a master's degree in Philosophy from Wuhan University in July 1990 and a doctorate degree in Economics from Wuhan University in December 1997. He obtained the qualification of senior economist in November 1999.

Non-executive Directors

WANG Yijun, aged 46, was appointed as a Director of the Company in June 2015. In October 2016, he was re-designated as a Non-executive Director of the Company. He has been a director of Bank of Communications Financial Leasing Co., Ltd. since June 2015, the general manager of the strategic investment department of BOCOM and the chairman of the supervisory board of Bank of Communications Schroder Fund Management Co., Ltd. since July 2015 and the chairman of the supervisory board of BoComm Life Insurance Company Limited since November 2016.

Mr. WANG joined BOCOM in July 1994. He was the deputy officer of the general office of BOCOM from October 2003 to June 2004. He was the deputy officer (from June 2004 to February 2006), senior manager (from February 2006 to October 2007), assistant general manager (from October 2007 to January 2010) and deputy general manager (from January 2010 to January 2012) of the corporate affairs department of BOCOM. He also served as the deputy general manager of the investment banking department of BOCOM from January 2012 to July 2013 and the vice president of the Jiang Su Branch of BOCOM from July 2013 to April 2015. He was the general manager of the investment management department of BOCOM from April 2015 to July 2015.

Mr. WANG graduated from Shanghai University of International Business and Economics (formerly known as Shanghai Institute of Foreign Trade) in the PRC with a bachelor's degree in International Trade in July 1994. He received a master's degree in Business Administration from a joint programme by the University of Hong Kong and Fudan University in July 2001.

LIN Zhihong, aged 49, was appointed as a Director of the Company in November 2014. In October 2016, she was re-designated as a Non-executive Director of the Company. She has been the general manager of the financial budget department of BOCOM since November 2013.

Ms. LIN joined BOCOM in July 1990. She was the deputy officer (from January 2000 to June 2003) and the officer (from June 2003 to December 2004) of the finance and accounting department of BOCOM. She was the senior manager (budget management) of the financial budget department of BOCOM from December 2004 to August 2007. She was the deputy general manager of the financial budget department from August 2007 to July 2013.

Ms. LIN graduated from Shanghai Jiao Tong University in the PRC with a bachelor's degree in Finance in July 1998. She received a master's degree from the EMBA programme by Shanghai University of Finance and Economics in October 2010.

SHOU Fugang, aged 56, was appointed as a Director in August 2007. In October 2016, he was re-designated as a Non-executive Director of the Company. He currently is the chairman of Bank of Communications (Hong Kong) Limited, a director of BCOM Finance (Hong Kong) Limited since August 2000, the chief executive of BCOM Finance (Hong Kong) Limited since September 2007 and the chairman of China BOCOM Insurance Company Limited since November 2010.

Biographies of Directors and Senior Management

Mr. SHOU joined BOCOM in July 1987. He was the deputy officer (from July 1994 to November 1996) and officer (from November 1996 to November 1999) of the international banking department of BOCOM. He was the deputy general manager of the overseas business department of BOCOM from November 1999 to February 2000, the deputy general manager of BOCOM (Hong Kong Branch) from February 2000 to July 2007 and the chief executive of BOCOM (Hong Kong Branch) from July 2007 to August 2017.

Mr. SHOU graduated from Fudan University in the PRC with a bachelor's degree in Political Economics in July 1984. He received a master's degree in Political Economics from Fudan University in July 1987 and a master's degree in Business Administration jointly awarded by Northwestern University and Hong Kong University of Science and Technology in May 2004.

Independent Non-executive Directors

TSE Yung Hoi, aged 65, was appointed as an Independent Non-executive Director of the Company in June 2014. He is currently the chairman of BOCI-Prudential Asset Management Limited. He was the deputy chief executive officer of BOC International Holdings Limited from 2002 to 2012, the deputy general manager of the investment management department and the deputy general manager of the trading department of the head office of Bank of China from 1998 to 2002.

Mr. TSE is an independent non-executive director of Guoan International Limited (formerly known as "Global Tech (Holdings) Limited") (stock code: 00143) and HJ Capital (International) Holdings Company Limited (formerly known as "iOne Holdings Limited") (stock code: 00982) (both companies are listed on the Stock Exchange). Mr. TSE has been re-designated from a non-executive director to an independent non-executive director of DTXS Silk Road Investment Holdings Company Limited (stock code: 00620) (which is listed on the Stock Exchange) in November 2017. He was an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 00993) (which is listed on the Stock Exchange) from October 2015 to June 2016.

Mr. TSE graduated from Fudan University in the PRC with a bachelor's degree in English in July 1975. He was awarded the Bronze Bauhinia Star by the HKSAR government in July 2013. He is also the Life Honorary President of the Chinese Securities Association of Hong Kong and a member of the 12th Chinese People's Political Consultative Conference Shanghai Committee.

MA Ning, aged 45, was appointed as an Independent Non-executive Director of the Company in October 2016. He has served as a managing partner of Tibet Lingfeng Venture Investment Partnership since August 2015, and he held various positions with Beijing Gao Hua Securities Company Limited and served as the deputy general manager and managing director from May 2010 to June 2015. From August 2002 to April 2010, he held various positions with and served as a managing director of Goldman Sachs (Asia) L.L.C.. He also worked at the People's Bank of China (head office) from August 1996 to July 2002 where he was involved in devising policies and regulating the non-bank financial institutions in the PRC.

Mr. MA graduated from Renmin University of China with a bachelor's degree in Economics in July 1993. He obtained a master's degree in International Finance from the Graduate School of the People's Bank of China in February 1996 and a master's degree in Business Administration from London Business School in August 2002.

Biographies of Directors and Senior Management

LIN Zhijun, aged 63, was appointed as an Independent Non-executive Director of the Company in October 2016. Mr. LIN is an independent non-executive director of CITIC Dameng Holdings Limited (stock code: 1091), China Everbright Limited (stock code: 0165), Sinotruk (Hong Kong) Limited (stock code: 3808), Springland International Holdings Limited (stock code: 1700) and Dali Foods Group Company Limited (stock code: 3799), which are companies listed on the Stock Exchange.

He has served as the dean of the Business School of the Macau University of Science and Technology since January 2015, Mr. Lin was appointed as an associate vice president of the Macau University of Science and Technology in February 2017 and had held various positions in the School of Business of Hong Kong Baptist University (from September 1998 to December 2014), at the School of Business of the University of Hong Kong (from September 1996 to June 1998) and the Faculty of Management at the University of Lethbridge, Canada (from August 1990 to August 1998).

Mr. LIN obtained a master's degree in Economics (accounting) from Xiamen University in December 1982 and a doctorate degree in Economics in December 1985. He also obtained a master's degree in Business Administration from University of Saskatchewan, Canada in October 1991. He became a member of the American Institute of Certified Public Accountants since August 1995 and the Chinese Institute of Certified Public Accountants since June 1995. He is also a Chartered Global Management Accountant (CGMA) and a Certified Management Accountant (CMA) of Australia.

SENIOR MANAGEMENT

The Executive Directors are also members of the senior management. Please refer to the biographies of the Executive Directors set out above.

XI Xuanhua, aged 45, was appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee in July 2017. Ms. XI joined the Group in August 2005 and has held various positions in the Company. She was a director and head of China sales desk from 2005 to 2007, the executive director and head of China sales department from 2007 to 2009, the managing director and head of equity sales department from 2009 to 2013 and the managing director and head of institution and equity business from 2013 to 2015. Ms. XI has been the Managing Director and General Manager of BOCOM International Securities from March 2015 to July 2017. Immediately prior to joining the Group in August 2005, Ms. XI was an associate director of the China Sales of ICEA Securities Limited.

Ms. XI graduated from Fudan University in the PRC with a bachelor's degree in Economics in July 1995. She also obtained an EMBA from Shanghai Jiao Tong University in June 2012.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in securities brokerage, margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses and proprietary investment activities. The regulated activities carried out by the Company's licensed subsidiaries include dealing in securities and futures and advising on securities and futures contracts, providing securities margin financing, advising on corporate finance and providing asset management services.

A list of the Company's principal subsidiaries as of 31 December 2017 and their particulars (including principal activities) are set out in Note 17 to the consolidated financial statements.

BUSINESS REVIEW

An analysis of the Group's principal activities by operating segments for the Year is set out in Note 4 to the consolidated financial statements.

A fair review of the Group's business, an analysis using financial key performance indicators, an indication of likely future development in the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of 2017 are set out in the "Management Discussion and Analysis" on pages 8 to 17. The above sections form part of this Report of the Directors.

RESULTS AND DIVIDEND

The results of the Group for the Year are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 80 to 81.

The Directors recommended the payment of a final dividend of HK\$0.08 per Share to the Shareholders whose names appear on the register of members of the Company on 25 June 2018. Subject to the approval of the Shareholders at the annual general meeting of the Company, the proposed final dividend is expected to be paid on or about 5 July 2018.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 3 of this annual report.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 12 June 2018 to 15 June 2018 (both dates inclusive), for the purpose of determining the entitlements of the Shareholders to attend and vote at the forthcoming annual general meeting, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 11 June 2018. The annual general meeting of the Company will be held at 10:30 a.m. on 15 June 2018.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT OF FINAL DIVIDEND

The register of members of the Company will be closed on 25 June 2018, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend during which period no transfer of the Shares may be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 22 June 2018. Shares of the Company will be traded ex-dividend as from 21 June 2018.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the five largest customers of the Group accounted for less than 30% of the Group's total revenue for the Year.

The Group is a provider of financial services. In the opinion of the Board, it is of no value to disclose details of the Group's suppliers.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in Note 40 to the consolidated financial statements and in the consolidated statement of changes in equity on page 84 of this annual report, respectively.

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Ordinance, amounted to HK\$427,646,000.

DONATIONS

During the Year, the Group made charitable donations amounting to HK\$1,002,000.

SHARE CAPITAL

On 19 May 2017, the Company issued 666,680,000 Shares at HK\$2.68 per Share pursuant to the initial public offering of the Shares for total gross proceeds of approximately HK\$1,786.7 million and the Shares were listed on the Main Board of the Stock Exchange. On 14 June 2017, the Company issued 67,712,000 Shares at HK\$2.68 per Share for total gross proceeds of approximately HK\$181.5 million pursuant to the partial exercise of the over-allotment option.

Details of movements in share capital of the Company during the Year are set out in Note 32 to the consolidated financial statements for the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing Date to 31 December 2017 and up to the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed above in this Report of the Directors, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

DIRECTORS

The directors of the Company during the year ended 31 December 2017 and up to the date of this annual report are:

Executive Directors

TAN Yueheng
LI Ying
CHENG Chuange

Non-executive Directors

WANG Yijun
LIN Zhihong
SHOU Fugang

Independent Non-executive Directors

TSE Yung Hoi
MA Ning
LIN Zhijun



Report of the Directors

Pursuant to the Articles of Association, Mr. TAN Yueheng, Mr. SHOU Fugang and Mr. CHENG Chuange will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The directors of the Company's subsidiaries during the Year and up to the date of this annual report are TAN Yueheng, LI Ying, CHENG Chuange, XI Xuanhua, CHOI Suet Yin, LYU Xiangrong, LI Wu, WANG Dong, LIU Yingjie, MA Yuan, JIANG Ying, Kevin Andre PHILLIP and Jason Desmond FITZGERALD.

CHANGE OF INFORMATION OF DIRECTORS

Mr. TSE Yung Hoi has been re-designated from a non-executive director to an independent non-executive director of DTXS Silk Road Investment Holdings Company Limited (stock code: 00620) (which is listed on the Stock Exchange) in November 2017.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each Director has entered into a letter of appointment in relation to his/her role as a director of the Company.

Save as disclosed above, none of the Directors has entered into any service contracts with any member of the Group which is not determinable by the Company (or other member of the Group) within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY

The Articles of Association, subject to the Companies Ordinance, provides that every Director, company secretary or other officer of the Company shall be indemnified by the Company against all expenses and liabilities incurred by him/her in the execution and discharge of his/her duties.

The Company has arranged for appropriate insurance policies for Directors' and officers' liabilities in respect of legal actions that may be brought against them, and such insurance policies were in force during the Year and as of the date of this Report of the Directors.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

The Non-executive Directors, Mr. WANG Yijun, Ms. LIN Zhihong and Mr. SHOU Fugang, have certain directorships, executive roles and/or positions in the BOCOM Group.

The Articles of Association requires each Director to declare his/her interests in transactions or proposed transactions with the Group which may be in conflict with his/her duties or interests as a Director. In addition, the Group has implemented adequate internal approval and monitoring procedures in relation to continuing connected transactions to ensure that the interests of the Shareholders as a whole are safeguarded.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Details of the continuing connected transactions and material related party transactions are set out in this Report of the Directors and Note 34 to the consolidated financial statements, respectively.

Save as disclosed above, no transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in the Year was a Director or any entity connected with such a Director had, directly or indirectly, a material interest subsisted at any time during the Year or at the end of the Year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Long positions in Shares of the Company

Name of Director/Chief Executive	Capacity	Number of Shares held	Approximate percentage to the total number of issued Shares of the Company
TAN Yueheng	Beneficial owner	1,000,000	0.04
XI Xuanhua	Beneficial owner	500,000	0.02

Report of the Directors

Long positions in shares of associated corporation – Bank of Communications Co., Ltd.

Name of director	Capacity	Class of shares held in the associated corporation	Number of shares held	Approximate percentage to the total number of relevant class of issued shares of the associated corporation	Approximate percentage to the total number of issued shares of the associated corporation
TAN Yueheng	Beneficial owner	H shares	100,000	0.00	0.00
		A shares	100,000	0.00	0.00
LI Ying	Beneficial owner	H shares	173,000	0.00	0.00
CHENG Chuange	Beneficial owner	H shares	20,000	0.00	0.00
		A shares	40,000	0.00	0.00
SHOU Fugang	Beneficial owner	H shares	20,000	0.00	0.00
		A shares	40,000	0.00	0.00

Save as disclosed above, as at 31 December 2017, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 2017, none of the Company or any of its subsidiaries had signed any agreements to enable the Directors to acquire benefits by means of acquisition of Shares or debt securities (including debentures) of the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18 had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests and short positions of those persons (other than the Directors or Chief Executives of the Company) in the Shares and underlying Shares of the Company as required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or to the best of Directors' knowledge, were as follows:

Name of shareholder	Capacity	Long Position/ Short Position	Total number of Shares held	Approximate percentage to the total number of issued Shares of the Company
Bank of Communications Co., Ltd.	Interest in a controlled corporation, beneficiary of trust ⁽¹⁾	Long Position	2,000,000,000	73.14
Bank of Communications (Nominee) Company Limited	Interest in a controlled corporation, trustee (other than bare trustee) ⁽²⁾	Long Position	2,000,000,000	73.14

Notes:

- ⁽¹⁾ Expectation Investment is an indirect subsidiary of BOCOM and is the beneficial owner of 500,000 Shares. BOCOM is deemed to be interested in an aggregate of 2,000,000,000 Shares which BOCOM Nominee is interested in as trustee (other than a bare trustee) and which Expectation Investment is interested in as beneficial owner.
- ⁽²⁾ BOCOM Nominee is a subsidiary of BOCOM and (a) holds 1,999,500,000 Shares on trust for BOCOM and (b) controls 50% of voting rights of Expectation Investment which is the beneficial owner of 500,000 Shares.

Save as disclosed above, as at 31 December 2017, the Company is not aware of any other persons, other than the Directors and Chief Executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

INDEPENDENCE OF THE GROUP FROM THE BOCOM GROUP

The Company and BOCOM (Hong Kong Branch) have entered into a referral agreement dated 25 April 2017 (the “Referral Agreement”) pursuant to which BOCOM (Hong Kong Branch) has undertaken to refer to the Group for its consideration to undertake all margin financing for secondary market transactions of existing and new customers of BOCOM (Hong Kong Branch), except margin financing for secondary market transactions of private banking customers of BOCOM (Hong Kong Branch).

BOCOM (Hong Kong Branch) has confirmed to the Company that it has complied with the terms of the Referral Agreement for the year ended 31 December 2017 and (if applicable) provided all relevant information as reasonably requested by the Independent Non-executive Directors for their annual review. Based on the confirmation and information provided by BOCOM (Hong Kong Branch) where applicable, the Independent Non-executive Directors are not aware of any non-compliance with the terms of the Referral Agreement by BOCOM (Hong Kong Branch) during the Year.

On 29 January 2018, the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the Laws of Hong Kong) (the “Ordinance”) has become effective. Pursuant to the Ordinance, the existing activities, assets and liabilities which constitute the retail banking business and private banking business of BOCOM (Hong Kong Branch) have been transferred to Bank of Communications (Hong Kong) Limited in accordance with the requirements of the Ordinance. Due to the aforementioned transfer and in light of the spirit underlying the Referral Agreement, on 29 January 2018, the Company and Bank of Communications (Hong Kong) Limited entered into a referral agreement (the “Further Referral Agreement”) pursuant to which Bank of Communications (Hong Kong) Limited has undertaken to refer to the Group for its consideration to undertake all margin financing for secondary market transactions of existing and new customers of Bank of Communications (Hong Kong) Limited, except margin financing for secondary market transactions of private banking customers of Bank of Communications (Hong Kong) Limited. The key terms of the Further Referral Agreement are the same as those of the Referral Agreement except that Bank of Communications (Hong Kong) Limited instead of BOCOM (Hong Kong Branch) is a party to the Further Referral Agreement.

In addition to the annual confirmation to be provided by BOCOM (Hong Kong Branch), Bank of Communications (Hong Kong) Limited will also provide to the Company (i) an annual confirmation at the end of each financial year regarding its compliance with the terms of the Further Referral Agreement during that financial year and (ii) all such information as the Independent Non-executive Directors may reasonably request for their annual review of Bank of Communications (Hong Kong) Limited’s compliance with the terms of the Further Referral Agreement. The Company will disclose in its subsequent annual reports (i) the annual confirmation of BOCOM (Hong Kong Branch) regarding its compliance with the terms of the Referral Agreement, (ii) the annual confirmation of Bank of Communications (Hong Kong) Limited regarding its compliance with the terms of the Further Referral Agreement and (iii) any key findings of the Independent Non-executive Directors regarding compliance by BOCOM (Hong Kong Branch) and Bank of Communications (Hong Kong) Limited with the terms of the Referral Agreement and Further Referral Agreement, respectively.

CONTINUING CONNECTED TRANSACTIONS

The following transactions constituted continuing connected transactions under the Listing Rules during the period from the Listing Date to the end of the Year:

(a) Financial Services Framework Agreement

The Company entered into a financial services framework agreement with BOCOM (the “Financial Services Framework Agreement”) on 25 April 2017 to govern the existing and future provision of financial services between the Group and the BOCOM Group with effect from the Listing Date.

Under the Financial Services Framework Agreement, the Group provides the following financial services to the BOCOM Group:

- i. securities brokerage settlement and subscription of new shares
- ii. investment advisory and management services
- iii. underwriting, sponsoring, securities issuance and advisory services

Under the Financial Services Framework Agreement, the BOCOM Group provides the following financial services to the Group:

- i. deposit services
- ii. customer referral services
- iii. fund product distribution services
- iv. miscellaneous banking and financial services

The Financial Services Framework Agreement provides that the provision of financial services by the Group to the BOCOM Group and by the BOCOM Group to the Group must be (i) in the ordinary and usual course of business of the Group and the BOCOM Group, (ii) on an arm’s length basis, (iii) on normal commercial terms or better to the Group, (iv) on terms no less favourable than those offered by the BOCOM Group to independent third parties for similar or comparable transactions (in respect of provision of financial services by the BOCOM Group to the Group) and on terms no less favourable than those offered by the Group to independent third parties for similar transactions (in respect of the provision of financial services by the Group to the BOCOM Group), (v) in accordance with the specified pricing policies and (vi) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

Report of the Directors

The Financial Services Framework Agreement expires on 31 December 2019 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Financial Services Framework Agreement.

The annual caps in respect of the transactions contemplated under the Financial Services Framework Agreement for the three years ended/ending 31 December 2017, 2018 and 2019 and the respective actual amount received/paid in 2017 are as follows:

	Annual Cap for the year ended/ending 31 December			Actual Amount for the year ended 31 December 2017
	2017	2018	2019	
Revenue received by the Group from the BOCOM Group	119.7	130.7	151.0	53.3
Fees and commissions paid by the Group to the BOCOM Group	17.3 ^{Note}	40.0 ^{Note}	51.1 ^{Note}	15.8

Note:

On 18 December 2017, the Board resolved to revise the original annual caps as set out in the Prospectus representing the aggregate fees and commissions to be paid by the Group to the BOCOM Group in respect of certain financial services provided by the BOCOM Group to the Group under the Financial Services Framework Agreement for the three years ending 31 December 2017, 2018 and 2019 from HK\$15.0 million, HK\$17.7 million and HK\$20.9 million to HK\$17.3 million, HK\$40.0 million and HK\$51.1 million, respectively. Please refer to the Company's announcement dated 18 December 2017 for further details.

(b) Derivatives Transactions Framework Agreement

The Company entered into a derivatives transactions framework agreement with BOCOM (the "Derivatives Transactions Framework Agreement") on 25 April 2017 to govern all existing and future derivatives transactions between the Group and the BOCOM Group, with effect from the Listing Date. The derivatives transactions include commodity derivatives transactions with the BOCOM Group at specified prices and terms at the over-the-counter market and at an offshore commodity futures exchange on substantially similar prices with an insignificant spread and on otherwise identical commercial terms but in the opposite direction.

The Derivatives Transactions Framework Agreement provides that the derivatives transactions between the Group and the BOCOM Group must be (i) in the ordinary and usual course of business of the Group and the BOCOM Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better to the Group, (iv) on terms no less favourable than those offered by the BOCOM Group to independent third parties for similar or comparable derivatives transactions and (v) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

The Derivatives Transactions Framework Agreement expires on 31 December 2019 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Derivatives Transactions Framework Agreement.

The annual caps in respect of the transactions contemplated under the Derivatives Transactions Framework Agreement for the three years ended/ending 31 December 2017, 2018 and 2019 and the respective actual amount received/paid in 2017 are as follows:

	Annual Cap for the year ended/ending 31 December			Actual Amount for the year ended 31 December 2017
	2017	2018	2019	
	(HK\$ million)			
Trading Gains or Losses to the Group ^{Note}	58.1	81.3	92.9	12.5
Maximum Fair Value Recorded as Financial Assets	55.7	75.5	90.6	18.9
Maximum Fair Value Recorded as Financial Liabilities	55.7	75.5	90.6	1.3

Note:

This does not include the trading gains or losses arising from the derivatives transactions in opposite directions to be entered into by the Group at offshore commodity futures exchanges (which do not constitute continuing connected transactions of the Company).



Report of the Directors

(c) Property Leasing Framework Agreement

The Company entered into a property leasing framework agreement with BOCOM (the “Property Leasing Framework Agreement”) on 25 April 2017 to govern the leasing of properties by the Group from the BOCOM Group with effect from the Listing Date.

The Property Leasing Framework Agreement provides that all the leasing transactions must be (i) in the ordinary and usual course of business of the Group and the BOCOM Group, (ii) on an arm’s length basis, (iii) on normal commercial terms or better to the Group, (iv) at rentals determined by reference to the prevailing market rents and on terms no less favourable than those offered by the BOCOM Group to independent third parties for similar or comparable properties at the relevant locations and (v) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

The Property Leasing Framework Agreement expires on 31 December 2019 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months’ prior written notice or otherwise in accordance with the terms of the Property Leasing Framework Agreement.

The maximum amount of the rental payable by the Group to the BOCOM Group for the lease of properties from the BOCOM Group for each of the years ended/ending 31 December 2017, 2018 and 2019 will not exceed HK\$10.0 million. The actual rent paid by the Group to the BOCOM Group in 2017 was HK\$8.8 million.

Confirmation of Independent Non-executive Directors

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that:

- (i) the above continuing connected transactions have been entered into in the ordinary and usual course of business of the Group;
- (ii) the above continuing connected transactions have been entered into on normal commercial terms or better; and
- (iii) the above continuing connected transactions have been entered in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation of auditor

The auditor of the Company has reviewed the above continuing connected transactions and confirmed that:

- (i) nothing has come to its attention that causes it to believe that the continuing connected transactions have not been approved by the Board;
- (ii) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (iii) nothing has come to its attention that causes it to believe that the continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) with respect to the aggregate amount of the relevant continuing connected transactions, nothing has come to its attention that causes it to believe that such continuing connected transactions have exceeded the annual cap set by the Company.

The related party transactions in respect of items denoted with “*” as disclosed in note 34 to the consolidated financial statements constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the connected transactions and continuing connected transactions conducted during the period from the Listing Date to the end of the Year.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company’s compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the Year are set out in the section headed “Corporate Social Responsibility Report” on pages 47 to 69 of this annual report.

Discussions on the Group’s environmental policies and performance and the account of the Group’s key relationships with its employees, customers and suppliers are contained in the “Corporate Social Responsibility Report” on pages 47 to 69 of this annual report. The above discussions form part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

The major laws and regulations that have a significant impact on the Group's business include the Companies Ordinance, the SFO, the Listing Rules and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong). During the period from the Listing Date to the date of this annual report, the Group has implemented policies and procedures to ensure compliance with the relevant laws and regulations.

Save as the information disclosed under the section headed "Business – Legal and Regulatory Matters – Regulatory Non-compliance and Disciplinary Actions" in the Prospectus, during the period from the Listing Date to the date of this annual report, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance. Information on the corporate governance principles and practices adopted by the Company is set out in the "Corporate Governance Report" section of this annual report.

EVENTS AFTER THE YEAR UNDER REVIEW

Please refer to the details set out in Note 43 to the consolidated financial statements.

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as independent auditor of the Company will be proposed at the annual general meeting.

By order of the Board

TAN Yueheng

Chairman and Executive Director

Hong Kong, 27 March 2018

Corporate Governance Report

The Company is committed to generate long-term value for Shareholders by maintaining good corporate governance and promoting transparency and accountability. The Company has adopted corporate governance guidelines and established risk management and internal control processes to achieve effective corporate governance and to monitor, evaluate and manage the principal risks assumed by the Group in its ordinary course of business.

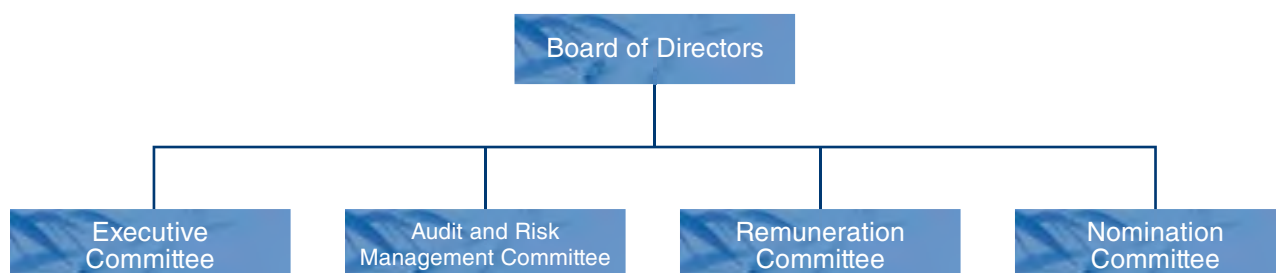
CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code of Listing Rules as its own code of corporate governance. During the period from the Listing Date to 31 December 2017, save as disclosed in this report, the Company has complied with all the code provisions set out in the Corporate Governance Code.

COPORATE GOVERNANCE FRAMEWORK

Roles and Responsibilities of the Board and the senior management

The Board is responsible for directing and supervising the Group's affairs and establishing and overseeing the overall strategy and performance of the Group. The Board is also responsible for establishing the risk management and internal control policies and strategies, and assessing the effectiveness of internal control systems of the Group. The Board acts objectively to ensure decisions are made in the best interests of the Company. For operation efficiency, the Board has established the Executive Committee, Audit and Risk Management Committee, Remuneration Committee and Nomination Committee. Each committee has specific terms of reference setting out its authority and duties. The following diagram sets out the Company's corporate governance framework:



The daily management and administrative functions of the Group are delegated to the senior management. The matters delegated to senior management include the implementation of the corporate governance policies and the operation of the Group's business in accordance with the operating strategies as approved by the Board. The delegated functions and work tasks are reviewed regularly by the Board and clear guidance on the senior management's authority is provided. The senior management is required to report and seek approval from the Board on material decisions.

Corporate Governance Report

The Board is responsible for performing corporate governance duties which include:

- (a) to develop and review policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance applicable to employees and Directors; and
- (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

Chairman and Chief Executive

Code Provision A.2.1 of the Corporate Governance Code states that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. TAN Yueheng, the Chairman of the Company, also assumes the responsibilities of Chief Executive of the Company. Mr. TAN has assumed the responsibilities of the Chief Executive since 2007. The Board believes that Mr. TAN is a suitable candidate to, in effect, assume the responsibilities of the Chief Executive of the Company and the above arrangement can help improve the efficiency of the decision-making and execution process of the Company. The Company has put in place an appropriate check-and-balance mechanism through the Board and the Independent Non-executive Directors. In light of the above, the Board considers that the deviation from Code Provision A.2.1 of the Corporate Governance Code is appropriate in the circumstances of the Company.

THE BOARD

Board Composition

As at 31 December 2017, the Board consists of 9 Directors, comprising 3 Executive Directors, Mr. TAN Yueheng, Mr. LI Ying and Mr. CHENG Chuange; 3 Non-executive Directors, Mr. WANG Yijun, Ms. LIN Zhihong and Mr. SHOU Fugang; and 3 Independent Non-executive Directors, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun. The Directors' biographical details are set out in the section "Biographical Details of Directors and Senior Management" of this annual report.

During the Year, the Company has 3 Independent Non-executive Directors representing one-third of the Board with one Independent Non-executive Director possessing appropriate professional accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

As at the date of this report, to the best knowledge of the Board, there is no financial, business or family relationship among members of the Board or the Chief Executives.

The Company has received from each of the Independent Non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers that all of them are independent.

Board Diversity

The Board adopted a board diversity policy in 2017 to achieve diversity at Board level to include appropriate skills, experience and perspectives among members of the Board. In order to determine a balanced board as a whole, appointments to the Board will be made on merit and factors including gender, age, cultural and educational background, ethnicity, professional experience, knowledge and independence will be considered. The Board reviews the board diversity policy from time to time to assess the effectiveness of the board composition in the context of the needs of the Company's business.

Directors' Professional Training and Development

Directors participate in appropriate continuous professional trainings to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company sends timely updates and reading materials to all Directors and Chief Executives relating to the Listing Rules, SFO, and relevant statutory and regulatory guidelines on obligations and duties of a director of a listed company. The Company also invites professionals advisers to conduct on-site intensive trainings for Directors and senior management at least once a year to refresh and enhance their awareness of corporate governance practices and provide them with updates on the latest developments of relevant policies, rules and regulations. According to the records provided by the Directors and maintained by the Company, the training received by the Directors during the year ended 31 December 2017 is summarised as follows:

Directors	Types of training	
	Reading materials/articles ⁽¹⁾	Attending seminars/workshops/forums/conferences ⁽²⁾
Executive Directors		
Mr. TAN Yueheng	✓	✓
Mr. LI Ying	✓	✓
Mr. CHENG Chuange	✓	✓
Non-executive Directors		
Mr. WANG Yijun	✓	✓
Ms. LIN Zhihong	✓	✓
Mr. SHOU Fugang	✓	✓
Independent Non-executive Directors		
Mr. TSE Yung Hoi	✓	✓
Mr. MA Ning	✓	✓
Mr. LIN Zhijun	✓	✓

Notes:

- (1) Reading materials/articles from newspapers and journals in relation to updates on the statutory and regulatory requirements, business and market changes, and developments on financial and economic environment.
- (2) Attending seminars/workshops/forums/conferences relating to topics including the responsibilities and continuing obligations of a listed company and its directors.

Corporate Governance Report

Board Meetings and Board Committees Meetings

The Board is scheduled to meet at least four times a year to discuss the Group's business development, operation and financial performance. At least 14 days' advance notice is given for all regular Board meetings to give all Directors an opportunity to attend and to include matters for discussion in the agenda. All Directors are provided with meeting agenda and board papers at least three days before the meetings. The Directors have access to the management for enquiries and to obtain further information, and when required, seek independent professional advice at the Company's expense. Minutes of meetings are kept by the company secretary. All Directors have been provided with monthly updates ensuring them informed of the Group's performance and developments and facilitate them to discharge their duties.

The attendance records of Directors at Board and Board committee meetings during the year ended 31 December 2017 are set out as follows:

Name of Directors	No. of Meetings Attended/Held				
	Board	Executive Committee	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. TAN Yueheng	6/7	20/20	–	–	1/1
Mr. LI Ying	6/7	20/20	–	–	–
Mr. CHENG Chuange	6/7	20/20	–	–	–
Non-executive Directors					
Mr. WANG Yijun	6/7	–	–	–	1/1
Ms. LIN Zhihong	6/7	–	1/2	–	–
Mr. SHOU Fugang	3/7	–	–	0/1	–
Independent Non-executive Directors					
Mr. TSE Yung Hoi	7/7	–	2/2	1/1	1/1
Mr. MA Ning	6/7	–	–	1/1	1/1
Mr. LIN Zhijun	7/7	–	1/2	1/1	1/1

Notes:

The Company especially convened Board meetings in relation to the fixed annual salary adjustment of Executive Directors (excluding discretionary bonus and contributions to retirement benefit scheme of the Company) and the adjustment of the cap of continuing connected transactions respectively on 19 July 2017 and 18 December 2017, where the Directors with material interests in relevant resolutions were not involved in such meetings and abstained from voting regarding the relevant issues.

During the Year, Board meetings were held for, among other things, discussion and approval of the Listing, re-appointment of auditor, approval of the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the interim results of the Group for the six months ended 30 June 2017, adjustment to remuneration of the Executive Directors and the senior management, annual assets allocation plan, operation management and risk management reports, etc..

During the Year, the Chairman held a meeting with the Non-executive Directors and Independent Non-executive Directors without the presence of the Executive Directors (excluding the Chairman) to exchange views and recommendations on the business management, strategic development and remuneration policies of the Group.

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company for a term of three years. In accordance with the Articles of Association, one-third of the Directors for the time being or, if the number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors confirmed that they complied with the Model Code during the period from the Listing Date to 31 December 2017 in response to specific enquiry made by the Company.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover in respect of legal actions taken against its Directors and officers. The insurance coverage will be reviewed on an annual basis to ensure that the Directors and officers are adequately protected against potential legal liabilities.

BOARD COMMITTEES

Executive Committee

The primary duty of the Executive Committee is to consider and approve various matters in relation to the Group's day-to-day operations including but not limited to transactions in relation to various businesses of the Group and certain corporate actions within their respective specified limits of authority thresholds. Currently, the Executive Committee comprises 4 members, namely, Mr. TAN Yueheng (Chairman), Mr. LI Ying, Mr. CHENG Chuange, all are Executive Directors, and Ms. XI Xuanhua, Deputy Chief Executive Officer of the Company.

During the year ended 31 December 2017, the Executive Committee held 20 meetings.

Audit and Risk Management Committee

The primary duties of the Audit and Risk Management Committee are to oversee the financial reporting system, risk management and internal control systems of the Group, review the financial information of the Group and consider issues relating to the external auditor and its appointment. Currently, the Audit and Risk Management Committee comprises 3 members, namely, Mr. LIN Zhijun (Chairman), Mr. TSE Yung Hoi, both of whom are Independent Non-executive Directors, and Ms. LIN Zhihong, a Non-executive Director.

For the year ended 31 December 2017, the Audit and Risk Management Committee held 2 meetings. The Audit and Risk Management Committee reviewed the consolidated unaudited financial statements for the six months ended 30 June 2017, the interim results announcement and the 2017 interim report.

Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management and on the establishment of formal and transparent procedures for developing remuneration policies, and make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The Remuneration Committee comprises 4 members, namely, Mr. TSE Yung Hoi (Chairman), Mr. MA Ning, Mr. LIN Zhijun, all of whom are Independent Non-executive Directors, and Mr. SHOU Fugang, a Non-executive Director.

For the year ended 31 December 2017, the Remuneration Committee held one meeting. The Remuneration Committee discussed the Company's remuneration policies.

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence of the Independent Non-executive Directors and make recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors. The Nomination Committee comprises 5 members, namely, Mr. TAN Yueheng (Chairman), an Executive Director, Mr. WANG Yijun, a Non-executive Director, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun, all of whom are Independent Non-executive Directors.

For the year ended 31 December 2017, the Nomination Committee held one meeting. The Nomination Committee reviewed the existing structure of the Board, Directors' performance and skills, and the trainings to be provided to the Directors.

JOINT COMPANY SECRETARIES

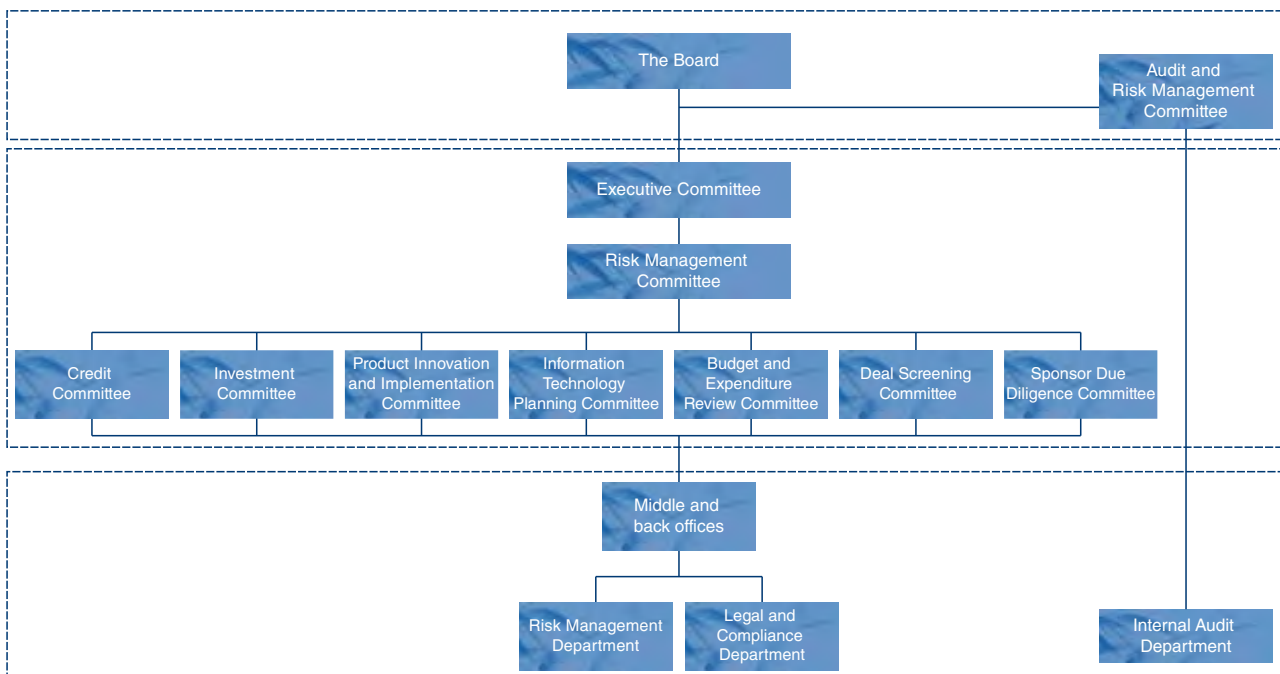
The Company has appointed Ms. YI Li and Ms. KWONG Yin Ping Yvonne as joint company secretaries. Ms. YI is an employee of the Company and is familiar with the affairs of the Group. By virtue of her academic background and experience, Ms. YI is capable of discharging her duty as a company secretary but she currently does not possess the qualifications under Rule 3.28 of the Listing Rules. Accordingly, the Company has appointed Ms. KWONG, a vice president of SW Corporate Services Group Limited (a corporate service provider), who satisfies the requirements under Rules 8.17 and 3.28 of the Listing Rules, as another joint company secretary of the Company for a term of three years from the Listing Date to provide assistance to Ms. YI in discharging her duties and responsibilities as a joint company secretary and acquiring the relevant experience as required under the Listing Rules. Ms. KWONG's primary contact person at the Company is Ms. YI.

Each of Ms. YI and Ms. KWONG has taken no less than 15 hours of the relevant professional training during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company has maintained good corporate governance and established comprehensive risk management and internal control processes to monitor, evaluate and manage the principal risks assumed in the ordinary course of the Group's business. The Group strives to reduce the uncertainties related to its business strategies, seeks to achieve a balance between business development and risk management efficiency, and proactively build its risk management culture into every level of the Group.

The Group has established a three-tier risk management structure consisting of i) the Board; ii) a risk management committee and special committees and iii) the relevant middle and back offices in charge of the execution of risk management. The following chart illustrates our risk management framework:





Corporate Governance Report

The Board is responsible for establishing the Group's overall risk management framework, overseeing the Group's risk management processes, reviewing and approving the Group's risk management and internal control policies and strategies, and assessing the effectiveness of the Group's risk management and internal control systems. The risk management committee is the decision-making body of risk management. Its primary responsibilities include: (i) reviewing risk management objectives of the Group according to the risk management strategies determined by the Board and senior management, and formulating overall policies, tactics and management procedures regarding overall risk management; (ii) determining risk mitigation plans for major risk management events, and monitoring the implementation of the risk management systems, rules and procedures at each line of responsibility within the Group; (iii) assessing periodically the Group's overall risk management performance, risk tolerance level and the effectiveness of the internal control policies of the Group; and (iv) supervising the special committees under its auspices in their respective risk management work. Mr. TAN Yueheng, the Chairman and Executive Director, serves as the Chairman of the risk management committee.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has implemented various risk management and internal control measures to manage the risks associated with the business activities of the Group. The internal audit department of the Group is responsible for auditing and examining the effectiveness and implementation of the risk management procedures and conducting an overall evaluation of the risk management systems of the Group. The Audit and Risk Management Committee and the Board with the assistance of the senior management, have conducted a review of the effectiveness of the Group's risk management and internal control systems for the Year, covering all material controls including financial, operational and compliance controls. The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and considers that such systems are effective and adequate.

CONSTITUTIONAL DOCUMENTS

The amended Articles of Association were adopted on 25 April 2017 and have taken effect on the Listing Date.

SHAREHOLDERS' RIGHTS

The Company will in June 2018 hold its first annual general meeting after the Listing. The Company encourages the Shareholders to attend the annual general meetings of the Company. The Company also recognizes the importance of timely disclosure of information, which will enable Shareholders and investors to make informed investment decisions. The annual general meetings provide opportunity for the Shareholders to communicate directly with the Directors. The Directors and Chairman of each of the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee (or a delegated member of the Committee), as well as the Chairman of the independent board committee (if any) and member of senior management will normally attend the annual general meeting of the Company to answer queries about the Group's business.

The circulars for the annual general meeting will be distributed to all Shareholders at least 20 clear business days before the meeting. All voting of the resolutions at the general meeting will be taken by poll pursuant to the Listing Rules and the poll results will be published on the Company's website and the Stock Exchange's website. The corporate communication with Shareholders will be posted on the Company's website (www.bocomgroup.com) for Shareholders' information.

The Company has adopted a shareholders' communication policy to ensure that Shareholders can timely and equally access to reasonable and/or understandable information of the Company.

Procedures for Shareholders to Convene an Extraordinary General Meeting

Under the Companies Ordinance, one or more Shareholders representing at least 5% of the total voting rights of all members having the right to vote at general meetings of the Company may request the Directors of the Company to call a general meeting. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The requisition must be authenticated by the person(s) making it and should be sent to the Company in hard copy form (by depositing at the registered office of the Company for the attention of the Board) or in electronic form (by email to ir@bocomgroup.com).

Procedures for Shareholders for Putting Forward Proposals at General Meeting

Under the Companies Ordinance, one or more Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or, at least 50 Shareholders who have a right to vote, may by written request require the Company to circulate resolutions which may properly be moved and are intended to be moved at an annual general meeting; and to circulate statements regarding resolutions proposed at general meetings. The requisition must be authenticated by the person(s) making it and should be sent to the Company in hard copy form (by depositing at the registered office of the Company for the attention of the Board) or in electronic form (by email to ir@bocomgroup.com).

Corporate Governance Report

Enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Board through the Company Secretary at the address of 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong. The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to address the Shareholders' enquiries and concerns.

Shareholders should direct their questions in relation to their shareholdings to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

HANDLING OF INSIDE INFORMATION

The Company has adopted an inside information policy in accordance with the SFO and the Listing Rules to ensure the confidentiality of handling inside information and the publication of respective disclosure to the public as soon as practicable. Under this policy, the Company disseminates information to specified persons on a need-to-know basis, requires all employees who have access to the inside information to maintain strict confidentiality of the inside information until it is announced. The policy also sets out the scope of inside information and procedures and precaution measures for reporting or leakage of inside information of the Group.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the total fees paid/payable in respect of audit and non-audit services provided to the Group by the Group's external auditor, PricewaterhouseCoopers, are set out below:

	HKD'000
Audit fee for the Group	2,700
Taxation and other advisory services	469

DIRECTORS' RESPONSIBILITY IN RELATION TO FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements of the Group for the Year on a going concern basis, showing a true and fair view of the state of affairs of the Company and the Group, and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. A statement by the external auditor about its reporting responsibilities is set out in the Independent Auditor's Report.

Corporate Social Responsibility Report

About Corporate Social Responsibility Report

The Group published their Corporate Social Responsibility Report for the first time, summarizing the Group's principles of implementing corporate social responsibility and their philosophy of sustainable development, describing the Group's relationship with substantial stakeholders, and demonstrating their vision and commitment to corporate social responsibility.

This report has been prepared in accordance with Appendix 27 ESG Reporting Guide (the "Guide") under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the contents of which are also in compliance with the disclosure principles required by the Guide and the "comply or explain" provisions set out in the Guide, describing the environmental and social impacts respectively arising from various types of business and operating activities of the Group.

The contents of the Corporate Social Responsibility Report mainly focus on the Group's core business in Hong Kong, presenting the sustainable development practices and the overall performance of corporate social responsibility in the Year.

Unless specified otherwise, this report covers the businesses directly controlled by the Group in Hong Kong (excluding the mainland businesses of the Group in the PRC).

The compilation of the Corporate Social Responsibility Report has received concerted support throughout the Group, which facilitates our understanding of the Group's development level in environmental and social aspects at present. This report is a summary of the Group's effort in both aspects in 2017, and also the foundation for formulating the Group's short-term and long-term sustainable development strategies in the future.

See "Corporate Governance Report" on page 37 of this annual report or visit the official website of BOCOM International (<http://www.bocomgroup.com/>) for details of the Group's corporate governance. We value your feedback on this report. If you have any enquiries or suggestions, please feel free to email us at (ir@bocomgroup.com).

Sustainable Development Strategies

BOCOM International incorporates the elements of sustainable development into every facet of the Group's operation based on four key aspects, including business development, care for employees, environmental concern and community engagement, in order to encourage stakeholders' participation and support the Group's sustainable development projects.

Corporate Social Responsibility Report



Our vision of sustainable development reflects the business development of BOCOM International, and simultaneously, its contribution to environment and society, demonstrating its firm commitment to corporate social responsibility.

Stakeholder Engagement

BOCOM International regards corporate social responsibility as an important component in its entire business operation. When formulating strategies in the areas of environment, society and governance, we uphold the Group's spirit of mutual interaction, and continue to exchange views with stakeholders. Even in our daily operation, it is essential to communicate with external and internal stakeholders through various channels.

Regarding the business nature of BOCOM International, we identified the stakeholders from different sectors, including shareholders, investors, government and regulatory authorities, clients, suppliers, employees and the public. We adopt an open-minded and proactive approach in maintaining communication, and formulate appropriate ways to communicate and respond to different stakeholders. Through communicating and interacting with various stakeholders, we strive to realise their views and expectations about the Group and establish a long-term relationship with mutual trust.

We collected opinions from every stakeholder by means such as questionnaires, interviews and phone interviews. There are constant channels of communication within the Group that allow employees to freely express their views and deliver to the superiors. For example, employees can express their views towards the Group to the Human Resources Department via email or in person. We would also communicate with suppliers through supplier management procedures, assessment system and meetings. Please refer to the following table for the structure of communication between BOCOM International and various stakeholders.

Substantial Stakeholders	Major Engagement Methods
Clients	<ul style="list-style-type: none"> • Customer satisfaction surveys and feedback forms • Customer service hotline • Daily operation/interaction • Telephone • Mail
Shareholders	<ul style="list-style-type: none"> • Interim reports and annual reports • Corporate Communications such as letters/circulars to shareholders and notices of meetings • Investor conferences
Employees	<ul style="list-style-type: none"> • Channels for employees to express opinions • Working performance appraisals • Focus groups • Meetings and interviews • Business briefings • Volunteer activities • Special advisory committee/panel discussion • Conferences/workshops/seminars • Employees meetings

Corporate Social Responsibility Report

Substantial Stakeholders	Major Engagement Methods
Business Partners	<ul style="list-style-type: none">• Reports• Meetings• Visits• Seminars
Regulatory Authorities	<ul style="list-style-type: none">• Meetings• Written responses to public consultation• Compliance reporting
Media	<ul style="list-style-type: none">• Media briefings• Press materials• Senior management interviews• Result announcements• Media gatherings
Community/Non-Governmental Bodies	<ul style="list-style-type: none">• Volunteer activities• Donations• Community investments scheme• Community activities• Conferences/seminars/workshops• Meetings
Financial Sector Peers	<ul style="list-style-type: none">• Strategic collaborations• Group notices
Professional Bodies	<ul style="list-style-type: none">• Meetings• Regular visits• Memberships• Working groups

Environmental, Social and Governance System

To implement and promote relevant sustainable development initiatives effectively, BOCOM International established an Environmental, Social and Governance (ESG) task force in the Year to outline the objectives and management approaches of the Group for ESG issues.

The Board of the Group is completely committed to implementing ESG strategies and reporting such issues, and leading the ESG task force which comprises the senior management of the Group and representatives from major departments. The ESG task force maintains close contact with the management of the Group, to assist the Board in evaluating and identifying the Group's ESG-related risks, while ensuring the Group has set up appropriate and effective ESG risk management and internal control system to improve the Group's ESG performance.

The major duties of ESG task force are as follows:

- To formulate sustainable development strategies
- To assist the Board for evaluating and determining the Group’s ESG-related risks
- To ensure the Group’s compliance with the relevant legal and regulatory requirements, as well as monitor and respond to ESG issues
- To foster the awareness of corporate social responsibility among employees
- To coordinate the daily practices relevant to corporate social responsibility

Business Development

The principal business lines of the Group comprise securities brokerage and margin financing, corporate finance and underwriting, investment and loans, and asset management and advisory. The Group reinforces the belief of “eternal integrity” and is devoted to offering comprehensive and integrated securities and financial products and services to our clients, which are also the core competitive strength of the Group. In this way, the Group can promote business growth and strive to reduce the harm to the environment and society.

Aim	<ul style="list-style-type: none"> • Adhere to the principle of corporate social responsibility, and offer comprehensive and integrated securities and financial products and services to clients
Practice	<ul style="list-style-type: none"> • Risk management and internal control • To formulate the Practice of the Prevention of Bribery • To execute the Information Security Policy • To formulate the standard procedures for handling complaints • To optimise the procurement policy and principle of the Group

To protect the personal data and privacy of clients

During the ordinary course of business, we handle clients’ information with stringent standards to fully protect the personal data and privacy of clients. BOCOM International has formulated the Information Security Policy strictly in compliance with the Personal Data (Privacy) Ordinance to illustrate the purposes of information collection and usage, and the restriction of disclosure and methods of storing clients’ information.

We also published the Rules of Document Filing and Access outlining clear guidelines and restriction on the filing and access to clients’ account opening documents and personal data updates. Only relevant customer service department, operation department, legal and compliance department and risk management department have the right to access clients’ information. Employees can only obtain clients’ personal information from computer with the approval from department heads. We also instruct our employees to be responsible for the confidentiality of all confidential or special data provided by clients and business partners. Prior to obtaining their consents, such information shall not be exposed or published to the third party.

Anti-Money Laundering and Counter-Terrorist Financing

BOCOM International has implemented effective risk management and internal control, in order to accomplish its mission of anti-corruption and moral cleanliness as well as reinforce its anti-money laundering management. In accordance with the provisions under the Corporate Governance Code under the Listing Rules, the Group has formulated the Measures on Anti-Money Laundering and Counter-Terrorist Financing, and strictly complied with the Anti-Money Laundering Ordinance, the Drug Trafficking (Recovery of Proceeds) Ordinance, the Organized and Serious Crimes Ordinance and United Nations (Anti-terrorism Measures) Ordinance in Hong Kong.

The Legal and Compliance Department of the Group will assess and list the risks arising from different countries (including sanctioned jurisdiction and equivalent jurisdiction with greater risk) in accordance with the United Nations Sanctions Ordinance, perform regular reviews, and update the “Due Diligence Risk Assessment Form”. Before launching financial products or services, we will strictly assess the features of the products or services as well as the risks of money laundering and terrorist financing, in order to ensure appropriate measures and controls are implemented to mitigate and manage the risks associated with money laundering and terrorist financing. When assessing the risks exposed to clients, we will consider their background, business engaged and any other information indicating such clients are potentially exposed to higher risks.

In addition, we have employed compliance officer and money laundering reporting officer to monitor the anti-money laundering and counter-terrorist financing system in all respects as well as the effectiveness of the system continuously, and where necessary, impose stricter control and procedures. For suspicious transactions, money laundering reporting officer will act as the central contact point to ensure compliance with laws and regulatory requirements, and monitor the compliance of such transactions.

Handling Clients’ Opinions and Complaints

The Group attaches great importance to our stakeholders, especially the valuable opinions from our clients. Accordingly, we would collect opinions from our clients through different channels, such as various business units, front-line employees, suggestion boxes in our branches, online platforms, customer service hotlines, emails or faxes.

Upon receiving enquiries or complaints, we would follow the formulated standard procedures for handling complaints by handing over enquiries or complaints to relevant department and/or Legal and Compliance Department for follow-up. Acknowledging the receipt of comments or complaints, the relevant department and/or Legal and Compliance Department will conduct individual investigations, and guarantee that the comments and complaints will be properly and timely responded to and followed up.

Practices of the Prevention of Bribery and Financial Crime

BOCOM International has operated business activities with honesty, integrity, fairness and professionalism as its core values while ensuring the employees and licensed representatives strictly comply with the Code of Conduct for Persons Licensed by or Registered with the SFC, the Code of Conduct for Corporate Finance Advisers and the Prevention of Bribery Ordinance as well as the relevant laws and regulations in Hong Kong. To prevent employees from receiving benefits and involving in any corruption or bribery cases, we have set out the Practice of the Prevention of Bribery to remind the employees to pay attention to their identities in BOCOM International and perform their duties in accordance with the code. Before accepting any gifts, regardless of whether the gifts can be shared with other people in the department, employees would check and consult their superiors to evaluate the value of the gifts. Various departments must also maintain centralised records of all the gifts accepted, which are subject to the approval of the responsible officers of the department or the respective responsible officers. Employees must refuse to accept cash, cash equivalents or valuable items from customers, trading units, consultants or third-party service providers. During the Year, the Group was not involved in any lawsuits relating to corruption.

Respect for Intellectual Property

BOCOM International has always paid respect to intellectual property, where its employees also comply with relevant laws and regulations relevant to intellectual property, in order to protect the intellectual property of the Group and the third parties, with zero tolerance to the illegal use of third-party intellectual property in the course of daily business. We would also comply with the information security rules and regulations of Bank of Communications Co., Ltd., including the rules on information security management, technical standards, codes of conduct and working guidelines, ensuring the Group is in line with the internal control requirements of the Bank.

In addition, the Group's policy stipulates that only genuine computer software with copyright protection can be purchased. Only authorized software is allowed in the ordinary course of business, all of which must be obtained by the employees through established procedures. The Information Technology Department of the Group is responsible for the installation and setup of desktop systems for employees to ensure security software is properly installed in desktop computer system. Once the employees discover any unusual occurrence of computer software, they should contact the Information Technology Department immediately.

In order to deliver complete, true and accurate product information to the public in our brand advertising, the Group complies with the relevant laws and regulations to eliminate the use of false and misleading product descriptions to deceive customers.

Supplier Management

BOCOM International not only imposes strict requirements on internal operating practices, but also on the selection of external suppliers. The services and products provided by our major suppliers include information technology devices, software, stationery and relevant equipment. During the selection of suppliers, we have formulated centralised procurement arrangement on bulk purchase, for the purpose of making comparison with numerous suppliers.

Corporate Social Responsibility Report

Other than evaluating the quality, goodwill and cost of products or services, we also emphasize whether the suppliers have shown their commitment on environmental and social responsibilities.

Through our business cooperation with suppliers, we hope to influence each other and jointly contribute to the environment and society. Accordingly, we have the following expectations on suppliers:

- Compliance with laws and regulatory practices
- Safeguard the interests of labour
- Health and safety management
- Environmental concern

Green Purchasing

We pay attention to the impacts our procurement has produced to the environment and society, and therefore, in the process of evaluating the key indicators of suppliers, we recommend the selection of suppliers with environmental protection verification and the purchase of more environmentally-friendly products, such as printing paper with environmental protection verification and electrical appliances with higher energy efficiency level.

High Quality Services

As new financial products are continuously introduced, BOCOM International strives for providing professional and high quality financial services in response to each and every need of clients. Thanks to these services, the Group received a number of awards from overseas and domestic organisations last year, reflecting the Group's endeavour to continuously provide high quality services to the clients across different regions. For details about awards, please refer to the "Award" section in this annual report.

Care for Employees

Employees are our significant internal stakeholders as well as the cornerstone of our Group's success, and therefore we pay close attention to employee rights and welfare by establishing the Human Resources Management System to set out human resources policies, employee benefits and relevant regulations. The Group also strictly complies with Employment Ordinance of Hong Kong, Labour Law and Labor Contract Law of the People's Republic of China, and other relevant laws and regulations.

Aim	<ul style="list-style-type: none">• To provide a healthy, fair and competitive working environment for our employees
Practice	<ul style="list-style-type: none">• Competitive remuneration and working hours• Welfare measures• Professional trainings and promotion opportunities• Good communication channels

Equal Opportunities

BOCOM International strives to provide a harmonious, inclusive, fair and non-discriminative working environment to employees.

We strictly comply with Discrimination Ordinances of Hong Kong, including Sex Discrimination Ordinance, Disability Discrimination Ordinance, Family Status Discrimination Ordinance and Race Discrimination Ordinance. During the hiring process, we follow a standard selection guideline. Only educational qualification, working experience, skills and job requirements of the applicant will be used for justification; whereas gender, marital status, family status or disability are not considered for selection. To ensure the hiring process is fair and just, applicants have to go through a series of strict procedures including qualification verification, written test, interview and evaluation with the department hiring and Human Resources Department before they are officially employed. We also make sure that no child labour is used and that we comply with the statutory working age requirements. We never used forced labour and condemn any exploitation of labour, forced labour, mandatory labour or debt bondage.

We have set up a transparent working performance management system to allow us to carry out annual performance appraisal under a “fair and objective” principle for employees at any level. Employees’ achievements, performances and abilities will be stated and summarised clearly by superiors according to performance indicators. The objective assessment results will also be used as a reference for pay rise, promotion, bonus, other allowances and other determination.

We wish to enhance the communication among employees at different levels to establish a bonded working environment. Through our effective communication channels, such as staff meetings and daily meetings between superiors and subordinates, we listen to our employees’ opinions and understand their daily issues to show our care. Our employees can discuss issues with superiors through an effective complaint mechanism. They are also encouraged to pass any unsettled issues to Human Resources Department or senior management to avoid discrimination, oppression or revenge from other employees. If we receive complaints involving harassment or discrimination, we would handle the complaints based on established procedures and ensure that the process of investigation is confidential, fair and just.

Employee Welfare

In order to attract and retain talents, the Group offers competitive remuneration, a variety of welfare and regular reviews of remuneration and welfare policies.

BOCOM International emphasises on employee welfare. In accordance with national laws and regulations, working hours are within 8 hours a day and no more than 40 hours a week for both full time employees or temporary staff, as we do not force employees to work overtime. The employee welfare we offer to our employees is beyond the statutory requirements. All employees are entitled to paid annual leaves, statutory paid sick leaves, casual leaves, maternity leaves, as well as marriage leaves, birthday leaves, statutory holidays, bereavement leaves, appointed learning leave and site visit leave, which are provided by the Group. Flexible working hours are offered to employees for them to cope with different job natures and workload at different times. Our employees can adjust their working hours and lunch hours to fit their working needs for efficiency. The latest Employment Ordinance, market standards and business development will be used as references when adjusting remuneration level and employee welfare regularly.

Corporate Social Responsibility Report

In order to help our employees striking a balance between stress in work and life, we established Health Committee to organise and host team building activities, such as regularly organising ball game competition, film appreciation meeting and Chinese medicine healthcare workshop. In recognition of outstanding performance of our employees, there is also an annual awards ceremony to affirm their loyalty and contribution to the Company. Our employees spontaneously organised a volunteer team to take part in voluntary work in Mid-Autumn Festival events, non-profit organisations activities, and delivering supplies to those in need.

Ensuring the Health and Safety of Employees

To prevent accidents and to ensure our employees' health and safety, BOCOM International strictly complies with the laws and regulations relevant to Occupational Safety and Health Ordinance and Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases in Hong Kong and the People's Republic of China. Our management attaches importance to the our employees' physical and mental health as well as their safety by providing a safe working environment and necessary instructions, trainings and supervision to protect our employees from injuries. We also established emergency measures, such as response plans to fire and explosion and regular fire drills, to ensure our employees know how to protect themselves in the event of a danger. Safety education will be provided to new employees and those who have been assigned with new tasks, this includes the Company's safety regulations, first aid certification and emergency measures. During the Year, the Group did not have any work-related injuries or fatalities.

Other than that, we strive to provide a healthy and cozy working environment by improving the indoor air quality, air conditioning temperature and office lighting and encouraging employees to place green plants in the office.



Talent Cultivation and Development

The Group considers training and development for our employees as vital missions. To maintain the competitiveness of the Group, we wish to build an excellent team to provide outstanding services to our clients. We have conducted a number of internal business trainings, regulatory requirement lectures, soft skills classes, annual ICAC anti-corruption trainings and annual anti-money laundering trainings during the year. Our “Employees Guideline” will be presented to new employees on their first day of employment. Remuneration and welfare, company structure, operation in each department, requirements of positions are set out in the guideline to assist them to ease into work.

Teamwork is an indispensable part of our Group’s development, as only an outstanding and cooperative team can fully develop employees’ talents and potential, which can in turn enhance our corporate competitiveness. Therefore, we would hold team activities regularly, which not only can encourage creativity and cooperation among teams, but can also help employees achieve self-enrichment and enhance their personal qualities. Successful team training activities can stimulate cohesion among employees’, inspiring them to work towards an ideal goal together with the Company.



BOCOM International Team Building Workshop

We would also invite external training organisations and groups to co-host different types of classes, featured lectures and seminars if necessary to help our employees master the knowledge and skills that are required for their roles. We established Employee Further Studies Sponsorship Scheme in order to sponsor employees when they apply for external training programmes to keep ourselves up-to-date with the industry.

To nurture future talented leaders in each department, we also provide headquarters management trainee programme to attract those who are passionate and ambitious about their career path and future to become part of our Group. Educational background, specialties, interests of the trainee and the needs of the Group will be considered before we arrange tailor-made inter-departmental internship for the trainee to experience different business operations and roles in the Group. In addition, we regularly assess the performance of managerial internship trainees, allowing them to review, improve and further develop their abilities, as well as cultivate their leadership skills, in order to help them grow in every business aspect.

Environmental Concern

Governments, enterprises, non-profit organisations and members from different sectors make concerted efforts to meet the challenges of global climate change and changes in ecological environment. BOCOM International also takes the obligation and proactive participation, paying close attention to the impact of the Group's operations on the environment and natural resources. We strictly comply with the environmental laws and regulations, as well as other related requirements in Hong Kong and China. We are committed to enhancing the Group's overall environmental performance and carrying out our civil duties.

Aim	<ul style="list-style-type: none">• Strive to reduce the potential environmental impact arising from business operation
Practice	<ul style="list-style-type: none">• Reduce greenhouse gas emissions (GHG) and natural resources consumption• Reduce waste production• Encourage clients and suppliers to practise environmental measures

Greenhouse Gas Emissions Performance

Climate change is a serious environmental crisis in the globe which affects individuals and next generation. In December 2015, the climate agreement passed at the UN Climate Summit – Paris Agreement, hoping to jointly deter the global warming threats. This agreement has been adopted by the governments of 195 countries around the world and formally entered into force, replacing the Kyoto Protocol, which was established in this century, holding the increase in the global average temperature to well below 2°C, and pursuing efforts to limit the temperature increase to 1.5°C. The PRC also sets GHG reduction targets, and has issued important policies such as National Plan on Climate Change (2014-2020) and National Strategy for Climate Adaptation. To coordinate with China in fulfilling the Paris Agreement, BOCOM International is also committed to reducing greenhouse gas emissions so as to combat climate change.

The Group understands that our daily operations will generate greenhouse gases and solid waste, as well as the consumption of energy, water, paper, etc. Based on the Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development, and the ISO 14064-1 Greenhouse Gas Inventory Standards established by the International Organization for Standardization, we conducted our first investigation on the condition of greenhouse gas emissions at our headquarters office. The details are as follows:

Greenhouse Gas Emissions Summary		Tonne of Carbon Dioxide Equivalent	Percentage
Scope 1	Direct greenhouse gas emissions	28.02	4.62%
Scope 2	Greenhouse gas emissions indirectly caused by energy consumption	502.31	82.78%
Scope 3	Other indirect emissions of greenhouse gas	76.50	12.61%
Total greenhouse gas emissions		606.83	100%

Scope 1: Direct greenhouse gas emissions from the sources owned and controlled by the Company.

Scope 2: Greenhouse gas emissions indirectly caused by power generation, heating and cooling, or steam externally purchased by the Company.

Scope 3: Emissions include greenhouse gas emissions indirectly generated by the sources that are not owned or directly controlled by the Company, but are related to the Company's business activities.

After examination, our greenhouse gas emissions can be divided into direct emissions (Scope 1) and indirect emissions (Scope 2 and 3). The sources of greenhouse gas emissions under each scope are: fuel used by the Group's vehicles (Scope 1), power consumption during operation (Scope 2), and the flight emissions during employees' overseas business trips, waste landfill, paper consumption (Scope 3), etc.

Direct Greenhouse Gas Emissions (Scope 1)

Our Group's business mainly operates in offices, and therefore the direct greenhouse gas emissions only comes from the Company's vehicles with mobile combustion source, and does not involve other stationary combustion sources (such as boilers or emergency generator, etc.). When the vehicle is in motion, the combustion of fossil fuel will emit greenhouse gases, such as carbon dioxide, methane and nitrous oxide. During the Year, the total consumption of gasoline was 10.35 tonnes, which was equivalent to 28.02 tonnes of carbon dioxide equivalent, accounting for 4.62% of the total greenhouse gas emissions.

Corporate Social Responsibility Report

Greenhouse Gas Emissions Indirectly Caused by Energy Consumption (Scope 2)

Our Group's greenhouse gas emissions mainly came from Scope 2 – greenhouse gas emissions indirectly caused by the external purchase of electricity, accounting for 85.26% of the total sum. During the Year, our Group's electricity consumption was 635,822 kWh (equivalent to 502.31 tonnes of carbon dioxide equivalent), and the total electricity consumption on average per square meter was 148.36 kWh.

Other Indirect Emissions of Greenhouse Gas (Scope 3)

For Scope 3, the greenhouse gas emissions of our Group was 76.50 tonnes of carbon dioxide equivalent, accounting for 12.61% of the total greenhouse gas emissions. Our Group generated office waste during its operation, such as food waste and waste paper, which contained organic substances. The organic waste is decomposed at the landfill site through anaerobic digestion process, and release greenhouse gas – methane. During the Year, we disposed 960 tonnes of solid waste and consumed 1,887,500 sheets of paper, equivalent to 23.83 tonnes of carbon dioxide equivalent.

In addition, fuel consumption arising from overseas aviation also led to the emissions of greenhouse gas. Accordingly, we recorded data of our employees' overseas business trips by air between cities and airports, of which the resulting greenhouse gas emissions was 52.67 tonnes of carbon dioxide equivalent.

Emissions Reduction Measures and Effective Use of Resources

By analysing the greenhouse gas emissions at the Group's headquarters office in the Year, it allows the Group to clearly comprehend the condition of greenhouse gas emissions, examine the Group's exposure to climate change, and therefore help formulate measures to reduce greenhouse gas emissions, including the initiatives relating to the enhancement of energy efficiency. In order to reduce the emissions of greenhouse gases and energy consumption in the daily operation of the Group, we have implemented the following emissions reduction measures for each workplace (such as operating locations and offices):

Lighting System

In order to save energy and reduce the need for lighting in offices, the Group would try to arrange employees to be seated adjacent to the windows, for the purpose of maximising the use of natural light while minimising the use of lighting fixtures. We also encourage our employees to switch off the lighting system when they are off duty, out of their seats, working out of office or out for lunch. In addition, our offices preferably incorporate high energy-efficient LED lighting fixtures to increase energy efficiency. We will also conduct regular checks on the brightness at different points of our offices, as well as maintain the cleanliness of lighting fixtures and lamps to maximise energy efficiency. The number of fluorescent tubes would be reduced in the locations where there are excessive lighting in order to reduce energy consumption. The excessive tubes will be recycled to replace the deteriorated tubes to avoid the generation of waste.

Automated Office Operation

Multi-functional photocopiers are set up in the Group's offices, which save our needs from purchasing separate printers, photocopiers, scanners and faxing equipment additionally. Not only can we reduce our consumption of electricity and toner, we can also reduce the amount of waste after switching from multiple office devices to multi-functional photocopiers. We are stepping forward to a paperless office mode and adopting more electronic systems, such as electronic forms to handle administrative affairs, electronic accounting systems and electronic procurement, etc.

Cooling and Warming Air Conditioning System

For doors and windows, we placed seals on our doors and windows to prevent conditioned air from leaking out, and also solar films on our windows to reduce indoor heat absorption and alleviate the burden on air conditioning system. The cooling and warming air conditioning system also adopts the centralised control and monitoring system (CCMS) or building management system (BMS) to enhance energy efficiency. We allow employees to not wear a tie and full formal suit under hot weather, and to wear casual outfits at work every Friday, provided that no appointment is made with their clients, to minimise the reliance on air conditioning system.

Company Vehicles

The vehicles of our Group are mainly used for accommodating clients, transportation for meetings, etc. Although our Group only has five vehicles, we are still committed to reducing its impact, including giving priority to selecting more fuel-efficient fuel to reduce the emissions arising from driving. We also conduct regular maintenance work for our fleet of vehicles and inflate the tires to ensure there is an adequate amount of air in the tires. We also provide low-carbon driving training for our drivers and require our employees to make more appropriate arrangement for transportation or itineraries to avoid the situation of idling engines.

Paper Consumption Reduction

The Group encourages employees to reuse paper or print on both sides as much as possible by putting up noticeable signs close to the photocopiers and printers to raise employees' awareness of environmental protection. To help save up to 50% of paper consumption, the Information Technology Department also ensures our employees' computers and printers are in 2-sided print and ink save mode on default. Other than this, we also encourage our employees to make use of scrap paper for internal notes in order to reduce the use of natural resources and protect forests.

In procurement, we use printer papers that are certified by the Programme for the Endorsement of Forest Certification (PEFC) of Sustainable Forestry Initiative (SFI) to support sustainable forestry products by action. We send E-cards instead of traditional cards before festive seasons to reduce paper consumption and any greenhouse gas emissions that may be produced during transportation. Apart from that, we also negotiate with the property management company actively regarding adding electronic hand dryers in the restrooms to reduce the amount of paper towels used.



Corporate Social Responsibility Report

Saving Water

Since the principal activities of our Group took place in offices and operating locations, we are not an industry with high water consumption. However, we understand that the world is facing the crisis of water shortage. We initiate to affix reminder stickers regarding conserving water, and we also use taps and sanitary fittings with water saving labels and infrared sensors to reduce our water consumption.

Waste Management

As environmental protection is a persistent mission, the Group is dedicated to its environmental strategies for optimising the use of resources to the fullest through waste reduction and daily recycling. The Group mainly produces waste paper, office solid waste, unused electrical appliances and electronic devices (electronic waste) from daily office operation. Waste reduction requires radical measures from the source, and therefore we firstly estimate the amount of office stationery needed before purchasing to avoid overstock. Reusable and refillable products are preferred when there is a need for purchase, so as to eliminate the reliance on disposable and non-recyclable products. We encourage employees to reuse envelopes, folders and other office stationery as well as refillable pens with refills in order to reduce the amount and volume of waste.

Since the Group is engaged in the securities industry, office waste will be classified into confidential and non-confidential documents. All confidential information or client-related information will be processed under the company policy, i.e. passing to professional service suppliers to handle shredded paper properly. Waste paper from non-confidential documents will be delivered to paper recycling company after collection for further recycling process.

We placed waste classification instruction in our offices to encourage employees to recycle and classify waste, such as cans, plastic, paper waste, glass bottles and other recyclable materials, and then put into the central recycling bins of the office building for collection.

As for hazardous waste, such as old model electronic waste and office electronic devices, we will preferentially consider to donate to the charity. We hope it helps the needy, reduces the burden on landfill sites, and extends the longevity of electronic devices so as to waste less. For irrecoverable electrical appliances and devices, we will pass to qualified recyclers to recycle and reuse, and ensure it is well-handled.

Outlook

BOCOM International has proactively responded to the significant climate change issue, and monitored and reported the greenhouse gas emissions performance of the Group's offices for the first time during the Year, with an aim to expand the coverage and depth regarding the reporting of environmental performance and continuously monitor the sustainable development performance in the future. We hope the information of greenhouse gas emissions in the coming year will be analyzed and reflected in a more detailed way which will be compared to this year's performance. The overall environmental performance of the Group will improve through continuous monitoring and the effort on the reduction of greenhouse gas emissions.

Community Engagement

With the aim of motivating the social sustainable development, BOCOM International not only pursues business development, but also practises its corporate social responsibility.

Aim	<ul style="list-style-type: none"> Connect with the community and promote sustainable development for the community
Practice	<ul style="list-style-type: none"> Provide green securities registration service Support the plantation work Donate a million dollar to The Community Chest of Hong Kong

During public offering, the Group considers lessening the impact on the community and the environment, and thus offers green securities registration service for the first time to encourage investors to subscribe for new stock via our online eIPO white form. Apart from reducing waste paper, the Group also donated HKD2 for every online application so as to support the Tree Planting Project of Hong Kong Friends of the Earth in the Dongjiang River Source area, and connected the subscribers to the community.

In addition, after our listing, the Chairman of the Group led the roadshow team to conduct investor education campaign for 14 institutional shareholders and investors, plus face-to-face interaction with 20 analysts from 12 brokerage firms in the Year. A good and continuous investor education will help the public to truly understand the industry and the Group, assist the public to make fundamental decisions on investment, and also encourage the stable development of the entire industry.

In 2017, we donated HKD1 million to The Community Chest of Hong Kong to support the needy community in Hong Kong and invest in community development as well as child, youth and elderly services.



Donating HKD1 million to The Community Chest of Hong Kong

Sustainable Development Data Abstract – Environmental Performance BOCOM International Hong Kong Headquarters Office

Environmental Performance	Unit	2017
Volume of greenhouse gas emissions		
Direct emissions of greenhouse gas (Scope 1)	Tonne of carbon dioxide equivalent	28.02
Indirect emissions of greenhouse gas (Scope 2)	Tonne of carbon dioxide equivalent	502.31
Other indirect emissions of greenhouse gas (Scope 3)	Tonne of carbon dioxide equivalent	76.50
Total volume of greenhouse gas emissions (Scope 1, 2 & 3)	Tonne of carbon dioxide equivalent	606.83
The intensity of greenhouse gas emissions		
Floor area per square meter (Scope 1, 2 & 3)	Tonne of carbon dioxide equivalent/square meter floor area	0.14
Each employee(Scope 1, 2 & 3)	Tonne of carbon dioxide equivalent/employee	1.94
Fuel consumption		
Fuel consumption of vehicles	Tonne	10.35
Energy consumption		
Total electricity consumption	Kilowatt hour	635,832
The intensity of total electricity consumption (floor area per square meter)	Kilowatt hour/square meter floor area	148.36
The intensity of total electricity consumption (per employee)	Kilowatt hour/employee	2,037.92
Non-hazardous waste		
Non-hazardous waste yield	Tonne	9.6
The intensity of non-hazardous waste	Tonne/employee	0.03
Hazardous waste		
Hazardous waste yield	Piece	79
The intensity of hazardous waste	Piece/employee	0.25
Paper consumption		
A4 paper	Sheet	1,885,000
A3 paper	Sheet	2,500
The intensity of paper consumption	Sheet/employee	6,050

Appendix: HKEX ESG Guide Content Index

Content Index		Relevant Sections
A. Environmental Aspect		
A1: Emissions	General Disclosure	Information on: the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions discharges into water and land, and generation of hazardous and non-hazardous waste.
		Greenhouse Gas Emissions Performance
	A1.1	Types of emissions and respective emissions data.
		Greenhouse Gas Emissions Performance Sustainable Development Data Abstract
	A1.2	Greenhouse gas emissions in total and intensity.
		Greenhouse Gas Emissions Performance Sustainable Development Data Abstract
	A1.3	Total hazardous waste produced and intensity.
		Waste Management Sustainable Development Data Abstract
	A1.4	Total non-hazardous waste produced and intensity.
		Greenhouse Gas Emissions Performance Waste Management Sustainable Development Data Abstract
	A1.5	Description of measures to mitigate emissions and results achieved.
		Emissions Reduction Measures and Effective Use of Resources
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.
		Emissions Reduction Measures and Effective Use of Resources Waste Management

Corporate Social Responsibility Report

Content Index		Relevant Sections	
A2: Use of Resources	General Disclosure	Policies on efficient use of resources including energy, water and other raw materials.	Emissions Reduction Measures and Effective Use of Resources
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity.	Greenhouse Gas Emissions Performance Sustainable Development Data Abstract
	A2.2	Water consumption in total and intensity.	N/A, water consumption is uniformly managed by the external property company
	A2.3	Description of energy use efficiency initiatives and results achieved.	Emissions Reduction Measures and Effective Use of Resources
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Emissions Reduction Measures and Effective Use of Resources
	A2.5	Total packaging material used for finished product (with reference to per unit produced).	N/A, the Group's business does not involve packaging materials in its business
A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Environmental Concern
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them.	Environmental Concern

Content Index		Relevant Sections	
B. Social Aspect			
B1: Employment	General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Equal Opportunity Employee Benefits Ensuring the Health and Safety of Employees Talent Cultivation and Development
	B1.1	Total workforce by gender, employment type, age group and geographical region.	We will consider disclosing this in our future reports
	B1.2	Employee turnover rate by gender, age group and geographical region.	We will consider disclosing this in our future reports
B2: Health and Safety	General Disclosure	Relating to providing a safe working environment and protecting employees from occupational hazards.	Ensuring the Health and Safety of Employees
	B2.1	Number and rate of work-related fatalities.	Ensuring the Health and Safety of Employees
	B2.2	Lost days due to work injury.	Ensuring the Health and Safety of Employees
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Ensuring the Health and Safety of Employees
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Talent Cultivation and Development
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	We will consider disclosing this in our future reports
	B3.2	The average training hours completed per employee by gender and employee category.	We will consider disclosing this in our future reports

Corporate Social Responsibility Report

Content Index		Relevant Sections	
B4: Labor Standards	B4	Relating to preventing child and forced labor:	Equal Opportunity
	B4.1	Description of measures to review employment practices to avoid child and forced labor.	Equal Opportunity
	B4.2	Description of steps taken to eliminate such practices when discovered.	Equal Opportunity
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supplier Management
	B5.1	Number of suppliers by geographical region.	We will consider disclosing this in our future reports
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier Management
B6: Product Responsibility	General Disclosure	Product responsibility: relating to health and safety, advertising, labeling and privacy matter relating to products and services provided and methods of redress.	Respect for Intellectual Property
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A
	B6.2	Number of products and service related complaints received and how they are dealt with.	Handling Clients' Opinions and Complaints
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Respect for Intellectual Property
	B6.4	Description of quality assurance process and recall procedures.	N/A
	B6.5	Description of consumer data protection and privacy polices, how they are implemented and monitored.	Protecting the Personal Data and Privacy of Clients

Content Index		Relevant Sections	
B7: Anti-corruption	General Disclosure	Relating to bribery, extortion, fraud and money laundering:	Anti-Money Laundering and Counter-Terrorist Financing Practices of the Prevention of Bribery and Financial Crime
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Anti-Money Laundering and Counter-Terrorist Financing Practices of the Prevention of Bribery and Financial Crime
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-Money Laundering and Counter-Terrorist Financing Practices of the Prevention of Bribery and Financial Crime
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Engagement
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Community Engagement
	B8.2	Resources contributed to the focus areas.	Community Engagement

Awards

Awards	Organiser
• The No.1 Best Hong Kong Strategist of 2017	Asiamoney
• The No.1 Best Hong Kong Economist of 2017	Asiamoney
• The No.2 Best China (H-share, Red chip and P-chip) Strategist of 2017	Asiamoney
• The No.3 Best China (H-share, Red chip and P-chip) Economist of 2017	Asiamoney
• The No.2 Best China (A & B share) Strategist of 2017	Asiamoney
• The No.2 Best China (A & B share) Economist of 2017	Asiamoney
• The No.2 Best China (A & B share) Analyst for Casinos & Gaming of 2017	Asiamoney
• The No.3 Best Hong Kong Analyst for Transportation of 2017	Asiamoney
• The No.3 Best Hong Kong Team for Strategy of 2017	Asiamoney
• The No.3 Best Hong Kong Team for Economic Research of 2017	Asiamoney
• The No.3 Best Hong Kong Team for Transportation of 2017	Asiamoney
• The No.2 Best China (A & B share) Team for Strategy of 2017	Asiamoney
• The No.2 Best China (A & B share) Team for Economic Research of 2017	Asiamoney
• The No.2 Best China (A & B share) Team for Casinos & Gaming of 2017	Asiamoney
• The No.3 Best China (H-share, Red chip and P-chip) Team for Strategy of 2017	Asiamoney
• The No.3 Best China (H-share, Red chip and P-chip) for Economic Research of 2017	Asiamoney
• The No.2 Best China (A & B share) Sales Trader of 2017	Asiamoney
• The No.3 Best China (A & B share) Sales Trader of 2017	Asiamoney

Awards	Organiser
<ul style="list-style-type: none"> • The Top Investment Houses in Asian G3 Bonds of 2017 	The Asset
<ul style="list-style-type: none"> • The Best Bond of the Triple A Country Awards of 2017(The Republic of Maldives sovereign bond) 	The Asset
<ul style="list-style-type: none"> • The No.1 Best Asia Earnings Estimator analyst for Transportation of 2017 	Thomson Reuters
<ul style="list-style-type: none"> • The No.1 Best China and Hong Kong Stock Pickers analyst for IT & Consumer Durables of 2017 	Thomson Reuters
<ul style="list-style-type: none"> • The No.2 Best Asia Stock Pickers analyst for Food, Household & Personal Products of 2017 	Thomson Reuters
<ul style="list-style-type: none"> • The No.2 Best China and Hong Kong Overall Stock Pickers analyst of 2017 	Thomson Reuters
<ul style="list-style-type: none"> • The Golden Central Best Comprehensive strength Securities Firm of 2017 	Zhitong Finance & Sina Finance
<ul style="list-style-type: none"> • The Golden Central Best Research Securities Team of 2017 	Zhitong Finance & Sina Finance
<ul style="list-style-type: none"> • The Golden Bull Asset Management Company Awards of 2016 	China Securities Journal
<ul style="list-style-type: none"> • The Best Enterprise Leader of 2017 	China Financial Market
<ul style="list-style-type: none"> • The Best IPO of 2017 	China Financial Market
<ul style="list-style-type: none"> • The Capital Market Star Brokerage of 2017 	China Financial Market
<ul style="list-style-type: none"> • The Best Financial Stock Company of 2017 Golden HK Stocks 	Zhitong Finance&Tonghuashun Finance

Independent Auditor's Report



羅兵咸永道

TO THE MEMBERS OF BOCOM INTERNATIONAL HOLDINGS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of BOCOM International Holdings Company Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 80 to 185, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Independent Auditor's Report (Continued)

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKASAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of margin loans to customers
- Consolidation assessment of structured entities
- Valuation assessment of Level 3 financial instruments

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (Continued)

Key Audit Matter

Impairment assessment of margin loans to customers

Refer to note 25 to the consolidated financial statements.

As at 31 December 2017, the margin loans to customers amounted to HK\$6,416,790 thousand, representing 35.7% of the Group's total assets. The impairment losses on margin loans to customers for the year ended 31 December 2017 amounted to HK\$19,771 thousand.

The margin loan business is highly susceptible to the market movements of the underlying equities. Management took such impact into consideration when performing impairment assessment.

Management assessed whether objective evidence of impairment existed for margin accounts that were individually significant at each reporting date. If there was objective evidence of impairment, impairment loss was recognised individually. Management performed a collective assessment for loans in the remaining portfolio that were not individually significant or for which impairment had not yet been identified. They were included in a group of financial assets because of their similar credit risk characteristics.

Significant management judgment was involved in the impairment assessment of margin loans to customers. A variety of factors were considered by management, including but not limited to the Group's historical loss experience, the economic background of the customers, the repayment history of the customers, the repayment plan of the customers, the profile of the underlying securities and the availability and value of other collaterals.

Impairment assessment of margin loans to customers was considered a key audit matter due to the size of the balance and significant management judgment involved in the impairment process.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the impairment assessment of margin loans to customers included:

- Understanding and testing the key management controls over the approval, recording and monitoring of margin loans to customers and the impairment assessment procedures;
- Assessing the existence and valuation of collaterals held for margin loans on a sample basis by examining the Group's and the clearing house's records and checking quoted market prices at year end against independent source and the liquidity of the underlying market securities with reference to the recent trading volume;
- Inspecting the margin loan shortfall report and assessing the appropriateness of key assumptions and management judgment involved in evaluating the economic background, repayment history and repayment plan of customers with significant margin loan shortfalls;
- Testing the existence of additional collaterals by inspecting the share charges and mortgage deeds, and performing land search for customers with significant margin loan shortfalls;
- For collective impairment assessment, assessing the appropriateness of the methodology and inputs used by comparing against those used in market practice and the Group's historical loss experience.

Based on the result of our procedures, we found management's impairment assessment of margin loans to customers to be reasonable.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Consolidation assessment of structured entities</p> <p>Refer to note 35 to the consolidated financial statements.</p> <p>The Group acted as an asset manager for or invested in a number of investment funds and asset management schemes which are structured entities. The consolidation assessment on these structured entities has a significant impact on the financial statements.</p> <p>Significant judgment was exercised by management in determining whether to consolidate or not for each of the structured entities with reference to the following three elements under HKFRS 10: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) ability to use power over the investee to affect the amount of the investor's returns.</p> <p>Given the significant judgment exercised by management and the significant impact of the assessment on the financial statements, the consolidation assessment of structured entities is identified as a key audit matter.</p>	<p>Our audit procedures in relation to the consolidation assessment of structured entities included:</p> <ul style="list-style-type: none"> • Inspecting the agreements of significant structured entities to understand the key terms and conditions relevant to the consolidation assessment of significant structured entities; • Understanding and analysing management's assessment on the Group's ability to exercise power over the significant structured entities; • Reviewing and recalculating the Group's variable return analysis including quantitative analysis on the magnitude and variability of return from involvement in the significant structured entities; • For the significant structured entities, assessing management's judgment over the Group's ability to use power to influence returns by considering various factors, including but not limited to the scope of decision-making authority over the investee, rights held by other investors, remuneration to which the Group was entitled and the exposure to variable returns. <p>Based on the procedures performed above, we found management's consolidation judgment relating to the structured entities to be reasonable.</p>

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (Continued)

Key Audit Matter

Valuation assessment of Level 3 financial instruments

Refer to note 38.3 to the consolidated financial statements.

As at 31 December 2017, the Level 3 financial instruments were made up of mainly unlisted funds, debt investments and preference shares. The amount consisted of HK\$1,217,350 thousand available-for-sale investments and HK\$2,106,150 thousand financial assets at fair value through profit or loss.

The valuation of the Level 3 financial instruments was based on specific valuation models that required a considerable number of inputs. Since many of the significant inputs were not based on observable market data, significant management judgment and estimates were involved in the valuation process.

Due to the significant balance of Level 3 financial instruments, significant management judgment on the use of unobservable inputs and the degree of complexity involved in the valuation process, the valuation of Level 3 financial instruments is identified as a key audit matter.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the valuation assessment of Level 3 financial instruments included:

- Evaluating and testing the relevant controls over the valuation and classification of Level 3 financial instruments;
- Evaluating and testing the appropriateness of models used by management for the valuation of significant Level 3 financial instruments with reference to market practice;
- For selected Level 3 financial instruments, inspecting and evaluating the terms and conditions of the underlying investment agreements relevant to valuation;
- Evaluating on a sample basis the appropriateness of the model inputs and testing the mathematical accuracy of the computation.

Based on the result of our procedures, we found the model used and model inputs adopted to be appropriate.

Independent Auditor's Report (Continued)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND RISK MANAGEMENT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit and Risk Management Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Sin Bun, Benson.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2018

Consolidated Income Statement

For the year ended 31 December 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Revenue	5	1,174,949	1,023,269
Other income	5	45,584	29,704
Revenue and other income		1,220,533	1,052,973
Commission and brokerage expenses	6	(75,230)	(59,891)
Finance costs	7	(133,028)	(99,670)
Staff costs	8	(276,753)	(243,237)
Depreciation		(8,685)	(10,323)
Other operating expenses	10	(211,310)	(199,691)
Impairment losses	11	(80,375)	(46,551)
Total expenses		(785,381)	(659,363)
Operating profit		435,152	393,610
Share of results of associates	18	998	9,905
Share of results of a joint venture	19	13	–
Profit before taxation		436,163	403,515
Income tax expense	12	(32,651)	(52,563)
Profit for the year		403,512	350,952
Attributable to:			
Shareholders of the Company		403,907	350,609
Non-controlling interests		(395)	343
		403,512	350,952
Earnings per share attributable to shareholders of the Company for the year – Basic/Diluted (in HKD per share)	13	0.16	0.18

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Profit for the year		403,512	350,952
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value of available-for-sale investments		89,288	(16,440)
Amounts reclassified to profit or loss upon disposal of available-for-sale investments	5	(61,019)	(29,592)
Reclassification gain from transfer of held-to-maturity investments to available-for-sale investments		–	36,782
Other comprehensive income/(loss), net of tax		28,269	(9,250)
Total comprehensive income		431,781	341,702
Attributable to:			
Shareholders of the Company		432,176	341,359
Non-controlling interests		(395)	343
		431,781	341,702

Consolidated Statement of Financial Position

At 31 December 2017

	<i>Notes</i>	31/12/2017 HK\$'000	31/12/2016 HK\$'000
Assets			
Non-current Assets			
Property and equipment	15	20,983	19,784
Intangible assets	16	3,196	3,196
Interest in associates	18	103,714	102,716
Interest in a joint venture	19	1,782	1,769
Other assets	20	42,042	28,727
Available-for-sale investments	21	4,524,786	3,132,641
Loans and advances	22	384,572	–
Deferred tax assets	31	656	302
Total non-current assets		5,081,731	3,289,135
Current Assets			
Loans and advances	22	1,093,548	–
Tax recoverable		10,987	20,132
Accounts receivable	23	560,990	585,026
Other receivables and prepayments	24	172,126	75,204
Margin loans to customers	25	6,416,790	5,123,260
Amounts due from related parties	26	3,392	16,093
Financial assets at fair value through profit or loss	21	2,757,659	566,020
Derivative financial assets	21	831	359
Cash and bank balances	27	1,870,268	504,054
Total current assets		12,886,591	6,890,148
Total assets		17,968,322	10,179,283
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	32	3,942,216	2,000,000
Retained earnings		2,399,314	1,995,407
Revaluation reserve		14,508	(13,761)
Total equity attributable to shareholders of the Company		6,356,038	3,981,646
Non-controlling interests		4,077	4,472
Total equity		6,360,115	3,986,118

Consolidated Statement of Financial Position (Continued)

At 31 December 2017

	Notes	31/12/2017 HK\$'000	31/12/2016 HK\$'000
Liabilities			
Non-current liabilities			
Borrowings	33	–	1,296,395
Deferred tax liabilities		130	130
Total non-current liabilities		130	1,296,525
Current Liabilities			
Borrowings	33	10,068,242	3,551,620
Subordinated loans from the ultimate holding company	33	1,000,000	1,000,000
Tax payable		5,783	1,353
Provision for staff costs		53,710	81,031
Other payables and accrued expenses	28	38,145	108,370
Accounts payable	29	390,668	115,351
Deferred revenue	30	25,788	14,309
Amount due to the ultimate holding company	26	6,080	5,806
Financial liabilities at fair value through profit or loss	21	18,858	18,446
Derivative financial liabilities	21	803	354
Total current liabilities		11,608,077	4,896,640
Total liabilities		11,608,207	6,193,165
Total equity and liabilities		17,968,322	10,179,283
Net current assets		1,278,514	1,993,508
Total assets less current liabilities		6,360,245	5,282,643

The consolidated financial statements on pages 80 to 185 were approved and authorised for issue by the Board of Directors on 27 March 2018 and signed on its behalf by:

Tan Yueheng,
Chairman and Executive Director

Cheng Chuange,
Deputy Chief Executive Officer &
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company			Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Retained earnings HK\$'000	Revaluation reserve HK\$'000			
At 1 January 2017	<u>2,000,000</u>	<u>1,995,407</u>	<u>(13,761)</u>	<u>3,981,646</u>	<u>4,472</u>	<u>3,986,118</u>
Profit/(loss) for the year	–	<u>403,907</u>	–	<u>403,907</u>	<u>(395)</u>	<u>403,512</u>
Other comprehensive income for the year	–	–	<u>28,269</u>	<u>28,269</u>	–	<u>28,269</u>
Total comprehensive income/(loss) for the year	–	<u>403,907</u>	<u>28,269</u>	<u>432,176</u>	<u>(395)</u>	<u>431,781</u>
Issuance of ordinary shares (note 32)	<u>1,942,216</u>	–	–	<u>1,942,216</u>	–	<u>1,942,216</u>
At 31 December 2017	<u>3,942,216</u>	<u>2,399,314</u>	<u>14,508</u>	<u>6,356,038</u>	<u>4,077</u>	<u>6,360,115</u>
At 1 January 2016	<u>2,000,000</u>	<u>1,644,798</u>	<u>(4,511)</u>	<u>3,640,287</u>	<u>4,653</u>	<u>3,644,940</u>
Profit for the year	–	<u>350,609</u>	–	<u>350,609</u>	<u>343</u>	<u>350,952</u>
Other comprehensive loss for the year	–	–	<u>(9,250)</u>	<u>(9,250)</u>	–	<u>(9,250)</u>
Total comprehensive income/(loss) for the year	–	<u>350,609</u>	<u>(9,250)</u>	<u>341,359</u>	<u>343</u>	<u>341,702</u>
Dividends paid by a subsidiary	–	–	–	–	<u>(524)</u>	<u>(524)</u>
At 31 December 2016	<u>2,000,000</u>	<u>1,995,407</u>	<u>(13,761)</u>	<u>3,981,646</u>	<u>4,472</u>	<u>3,986,118</u>

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Operating activities		
Profit before taxation	436,163	403,515
Adjustments for:		
Dividend income	(69,427)	(33,724)
Interest income from loans or clients	(369,677)	(366,619)
Bond interest income	(138,516)	(84,194)
Other interest income	(15,472)	(8,808)
Finance costs	133,028	99,670
Depreciation	8,685	10,323
Impairment losses	80,375	46,551
Net unrealised gain on financial assets at fair value through profit or loss	(41,288)	(23,279)
Net realised gain on available-for-sale investments	(61,019)	(29,592)
Amortisation movement on held-to-maturity investments	–	(2,818)
Foreign exchange (gain)/loss	(1,367)	941
Share of results of associates	(998)	(9,905)
Share of results of a joint venture	(13)	–
Operating cash flows before movements in working capital	(39,526)	2,061
(Increase)/decrease in other assets	(13,315)	5,649
Increase in financial assets at fair value through profit or loss	(2,150,351)	(447,905)
Increase/(decrease) in financial liabilities at fair value through profit or loss	412	(5,835)
Increase in derivative financial assets	(472)	(359)
Increase in derivative financial liabilities	449	354
(Increase)/decrease in accounts receivable	(36,568)	553,478
Increase in margin loans to customers	(1,313,301)	(218,241)
(Increase)/decrease in loans and advances	(1,478,120)	8,558
Decrease/(increase) in amounts due from related parties	12,701	(15,174)
Decrease in amount due from an associate	–	3,390
Increase in other receivables and prepayments	(59,732)	(12,010)
Increase/(decrease) in accounts payable	275,317	(146,931)
Increase/(decrease) in amount due to the ultimate holding company	274	(1,247)
Decrease in provision for staff costs	(27,321)	(36,682)
Decrease in other payables and accrued expenses	(80,167)	(834,290)
Increase in deferred revenue	11,479	14,309
Net cash used in operations	(4,898,241)	(1,130,875)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Income tax paid		(20,123)	(96,703)
Interest received from loans or clients		351,508	366,308
Other interest income received		14,716	8,808
Interest expenses paid		(131,185)	(96,455)
Net cash used in operating activities		(4,683,325)	(948,917)
Investing activities			
Dividend received		69,427	33,724
Bond interest income received		129,045	61,960
Purchase of property and equipment		(9,885)	(14,177)
Purchase of held-to-maturity investments		–	(5,797)
Proceeds on disposal of held-to-maturity investments		–	25,079
Purchase of available-for-sale investments		(2,028,666)	(2,080,138)
Proceeds on disposals of available-for-sale investments		739,099	471,012
Distribution from associates		–	12,562
Increase in time deposit with original maturity of more than three months		(26)	(815)
Capital injection for joint venture		–	(1,769)
Net cash used in investing activities		(1,101,006)	(1,498,359)
Financing activities			
Net drawdown of borrowings	42	4,597,227	2,093,002
Net proceeds from issuance of ordinary shares	32	1,942,216	–
Dividends from subsidiaries paid to non-controlling interests		–	(524)
Net cash generated from financing activities		6,539,443	2,092,478
Net increase/(decrease) in cash and cash equivalents		755,112	(354,798)
Cash and cash equivalents at 1 January		502,439	858,892
Effect of exchange rate changes on cash and cash equivalents		(11,923)	(1,655)
Cash and cash equivalents at 31 December	27	1,245,628	502,439

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL INFORMATION

BOCOM International Holdings Company Limited (the “Company”) is a company incorporated in Hong Kong. The address of its registered office is 9/F Man Yee Building, 68 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding. The Group is principally engaged in securities brokerage, margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses and proprietary investment activities. The regulated activities carried out by the Company’s licensed subsidiaries include dealing in securities and futures and advising on securities and futures contracts, providing securities margin financing, advising on corporate finance and providing asset management services.

The parent and ultimate holding company is Bank of Communications Co., Ltd., a company incorporated in the People’s Republic of China (“PRC”) and listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company, unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of BOCOM International Holdings Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures

(a) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 9 Financial Instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the Group's debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets. However, certain investments in preference shares, funds and convertible notes at a fair value of HK\$984,398 thousand will be reclassified to financial assets at fair value through profit or loss (FVPL). Related fair value gains of HK\$24,478 thousand will have to be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available, and
- debt and equity instruments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under HKFRS 9

The Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of equity instruments at FVOCI will no longer be transferred to profit or loss on sale. Consequently, such gains and losses will be reported in other comprehensive income under HKFRS 9. During 2017, HK\$31,884 thousand of such gains were recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(a) New standards and interpretations not yet adopted (Continued)

HKFRS 9, *Financial instruments* (Continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change of the loss allowance for the Group's trade debtors and other debt investments.

The new standard also introduces expanded disclosure requirements and change in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

HKFRS 15 *Revenue from Contracts with Customers*

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(a) *New standards and interpretations not yet adopted (Continued)*

HKFRS 15 Revenue from Contracts with Customers (Continued)

Management anticipate that the application of HKFRS15 will not have a material impact on the amounts reported in the Group's financial statements in the future based on the existing business model of the Group as at 31 December 2017.

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$75,545 thousand. However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use asset and lease liabilities on adoption of the new standard and how this will affect the Group's profit and classification of cash flows going forward.

HKFRS 16 must be applied for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) *Business combinations (Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions—that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Brokerage commission income is recognised when the services have been rendered.

Corporate finance and underwriting commission is recognised in accordance with the terms of the underlying agreement or deal mandate.

Asset management and advisory income are recognised when the Group has rendered the services and is entitled to receive fees pursuant to the underlying agreements. Payments that are related to services not yet rendered are deferred and shown as deferred revenue in the statement of financial position.

Handling fee is recognised when the brokerage handling services has been rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and advances is recognised using the original effective interest rate.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in HK dollars ("HK\$"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'other income' and 'other operating expenses' respectively.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper- inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.9 Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

2.10 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) **Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) **Deferred income tax**

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Taxation (Continued)

(b) *Deferred income tax (Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial instruments

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "other assets", "accounts receivable", "loans and advances", "margin loans to customers", "amount due from an associate", "amounts due from related parties" and "other receivables" in the statement of financial position.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial instruments (Continued)

2.11.1 Classification (Continued)

(d) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are financial liabilities held for trading and financial liabilities designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identical financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is designated and effective hedging instrument or a financial guarantee).

Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss through proprietary trading income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial instruments (Continued)

2.11.1 Classification (Continued)

(e) *Other financial liabilities*

Other financial liabilities are initially recognised at fair value less transaction costs, and are subsequently measured at amortised cost using the effective interest method.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within “proprietary trading income” in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as “proprietary trading income”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of proprietary trading income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of proprietary trading income when the Group’s right to receive payments is established.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial instruments (Continued)

2.11.3 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.11.4 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables and held-to-maturity category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial instruments (Continued)

2.11.4 Impairment of financial assets (Continued)

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss—is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale indicates there is objective evidence that the equity instrument is impaired. The Group assesses the fair value of available-for-sale equity instruments individually at statement of financial position date and determines that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, the Company recognises impairment losses in profit or loss if it concludes this decline is prolonged and expected to last for more than one year based on professional judgement of the Company's research department and business department.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Group or the counterparty.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Margin loans to customers

Margin financing refers to the lending of loans by the Group to customers for purchase of securities, for which the customers provide the Group with collateral.

The Group recognises margin loans as loans and receivables, and recognises interest income using effective interest rate method.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated and entity statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Employee benefits

The Group operates defined contribution pension plans.

(a) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Property and equipment

Property and equipment comprise leasehold improvements, furniture and fixtures, motor vehicles and office equipment stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.19).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income" and "other operating expenses" in the income statement.

2.18 Intangible assets

Trading rights

Trading right represents the Group's right to trade on or through The Stock Exchange of Hong Kong Limited ("SEHK"), and throttle rate for trading order to be transmitted to the Automated Matching System of the SEHK, with indefinite useful life as considered by management.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Fair value of financial instruments and impairment of available-for-sale investments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

A significant or prolonged decline in the fair value of an available-for-sale investment indicates there is objective evidence that the investment is impaired. The Group assesses the fair value of available-for-sale investments individually at statement of financial position date and determines that it is impaired if the fair value of the investment declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive).

Though the fair value of an available-for-sale investment declines less than 50% of its initial cost, the Company recognises impairment losses in profit or loss if it concludes this decline is prolonged and expected to last for more than one year based on judgement of the Directors of the Company.

(c) Impairment allowances on loans and advances

The Group reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised in the consolidated statement of comprehensive income, the Group makes judgments as to where there is any observable data indicating that there is a measurable decrease in the estimated future cash flows on each individual loan in that portfolio.

(d) Impairment allowances on margin loans to customers

The Group reviews its margin loans to customers to determine whether there is objective evidence of impairment, if there is objective evidence of impairment for margin accounts that are individually significant, impairment loss is recognised individually. Margin loans to customers that are individually not significant or assessed not to be impaired individually are reviewed at the end of each reporting period on a collective basis.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Consolidation assessment of structured entities

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services and the Group's exposure to variability of returns from other interests that it holds in the structured entities. The Group performs re-assessment periodically.

4. SEGMENT INFORMATION

The Group manages the business operations by the following segments in accordance with the nature of the operations and services provided:

- (a) Brokerage segment provides securities trading and brokerage services.
- (b) Corporate finance and underwriting segment provides corporate finance services including equity underwriting, debt underwriting, sponsor services and financial advisory services to institutional clients.
- (c) Asset management and advisory segment offers traditional asset management products and services to third party clients. In addition, it also offers investment advisory services, portfolio management services and transaction execution services.
- (d) Margin financing segment provides securities-backed financial leverage for both retail and institutional clients.
- (e) Investment and loans segment engages in direct investment business including investments in various debt and equity securities, investment in companies and investment in loans.
- (f) Others include headquarter operations such as bank interest income, and interest expense incurred for general working capital purposes.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in basis during the years ended 31 December 2017.

There was no client contributing over 10% of the total revenue of the Group.

The following is an analysis of the segment revenue and segment profit or loss:

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

4. SEGMENT INFORMATION (Continued)

	Year ended 31 December 2017							Total HK\$'000
	Brokerage HK\$'000	Corporate finance and underwriting HK\$'000	Asset management and advisory HK\$'000	Margin financing HK\$'000	Investment and loans HK\$'000	Others HK\$'000	Elimination HK\$'000	
Total revenue								
Commission and fee income								
– External	190,310	154,127	99,766	-	-	-	-	444,203
– Internal	-	33,411	8,828	-	-	-	(42,239)	-
Interest income from loans or clients								
– External	-	-	-	333,706	35,971	-	-	369,677
– Internal	-	-	-	-	12,642	-	(12,642)	-
Proprietary trading income								
– External	-	-	-	-	361,069	-	-	361,069
– Internal	-	-	-	-	-	-	-	-
Other income	18,199	1,082	1,242	-	7,886	17,175	-	45,584
	<u>208,509</u>	<u>188,620</u>	<u>109,836</u>	<u>333,706</u>	<u>417,568</u>	<u>17,175</u>	<u>(54,881)</u>	<u>1,220,533</u>
Total expenses	(215,019)	(177,917)	(99,713)	(135,498)	(149,571)	(62,544)	54,881	(785,381)
Share of results of associates	-	-	-	-	998	-	-	998
Share of results of a joint venture	-	-	-	-	13	-	-	13
(Loss)/profit before taxation	<u>(6,510)</u>	<u>10,703</u>	<u>10,123</u>	<u>198,208</u>	<u>269,008</u>	<u>(45,369)</u>	<u>-</u>	<u>436,163</u>
Other disclosures								
Depreciation	(2,286)	(108)	(1,591)	(4,635)	(65)	-	-	(8,685)
Impairment losses	-	(60,604)	-	(19,771)	-	-	-	(80,375)
Finance costs	-	-	-	(44,741)	(100,929)	-	12,642	(133,028)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

4. SEGMENT INFORMATION (Continued)

	Year ended 31 December 2016							Total HK\$'000
	Brokerage HK\$'000	Corporate finance and underwriting HK\$'000	Asset management and advisory HK\$'000	Margin financing HK\$'000	Investment and loans HK\$'000	Others HK\$'000	Elimination HK\$'000	
Total revenue								
Commission and fee income								
– External	140,820	216,494	129,443	–	–	–	–	486,757
– Internal	–	750	18,441	–	–	–	(19,191)	–
Interest income from loans or clients								
– External	–	–	–	331,906	34,713	–	–	366,619
– Internal	–	–	–	–	7,407	–	(7,407)	–
Proprietary trading income								
– External	–	–	–	–	169,893	–	–	169,893
– Internal	–	–	–	–	–	–	–	–
Other income	16,437	–	–	–	25	13,242	–	29,704
	<u>157,257</u>	<u>217,244</u>	<u>147,884</u>	<u>331,906</u>	<u>212,038</u>	<u>13,242</u>	<u>(26,598)</u>	<u>1,052,973</u>
Total expenses	(211,783)	(150,263)	(70,465)	(154,361)	(83,322)	(15,767)	26,598	(659,363)
Share of results of associates	–	–	–	–	9,905	–	–	9,905
Share of results of a joint venture	–	–	–	–	–	–	–	–
(Loss)/profit before taxation	<u>(54,526)</u>	<u>66,981</u>	<u>77,419</u>	<u>177,545</u>	<u>138,621</u>	<u>(2,525)</u>	<u>–</u>	<u>403,515</u>
Other disclosures								
Depreciation	(3,600)	(198)	(2,457)	(3,996)	(72)	–	–	(10,323)
Impairment losses	–	(20,094)	–	(8,260)	(18,197)	–	–	(46,551)
Finance costs	–	–	(1,240)	(53,335)	(52,502)	–	7,407	(99,670)

The geographical information of total revenue is disclosed as follows:

	2017 HK\$'000	2016 HK\$'000
Total revenue from external customers by location of operations		
– Hong Kong	1,196,769	980,162
– Mainland China	23,764	72,811
	<u>1,220,533</u>	<u>1,052,973</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

5. REVENUE AND OTHER INCOME

	2017 HK\$'000	2016 HK\$'000
REVENUE		
COMMISSION AND FEE INCOME		
Brokerage commission	190,310	140,820
Corporate finance and underwriting fee	154,127	216,494
Asset management and advisory income	99,766	129,443
	<u>444,203</u>	<u>486,757</u>
INTEREST INCOME		
Interest income from margin financing	333,706	331,906
Interest income from loans and advances	35,971	34,713
	<u>369,677</u>	<u>366,619</u>
PROPRIETARY TRADING INCOME		
Unrealised gain on financial assets	41,288	23,279
Realised gain/(loss) on financial assets at fair value through profit or loss	53,823	(2,955)
Realised gain on available-for-sale investments	61,019	29,592
Realised gain on held-to-maturity investments	–	926
Fair value changes from financial liabilities at fair value through profit or loss	(3,004)	1,133
Dividend income from		
– Financial assets at fair value through profit or loss	1,822	813
– Available-for-sale investments	67,605	32,911
Bond interest income from		
– Financial assets at fair value through profit or loss	25,238	13,961
– Available-for-sale investments	113,278	39,650
– Held-to-maturity investments	–	30,583
	<u>361,069</u>	<u>169,893</u>
	<u>1,174,949</u>	<u>1,023,269</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

5. REVENUE AND OTHER INCOME (Continued)

	2017 HK\$'000	2016 HK\$'000
OTHER INCOME		
Handling fees	18,285	16,195
Other interest income	15,472	8,808
Exchange gains	1,367	–
Others	10,460	4,701
	<u>45,584</u>	<u>29,704</u>

6. COMMISSION AND BROKERAGE EXPENSES

	2017 HK\$'000	2016 HK\$'000
Commission rebate to account executives	66,285	52,966
Commission rebate to the ultimate holding company (Note 34)	8,815	5,919
Others	130	1,006
	<u>75,230</u>	<u>59,891</u>

7. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interest expenses on subordinated loans from the ultimate holding company (Note 34)	20,532	17,796
Interest expenses on loans from the ultimate holding company (Note 34)	31,329	17,143
Interest expenses on other bank loans and overdraft	79,514	63,489
Others	1,653	1,242
	<u>133,028</u>	<u>99,670</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

8. STAFF COSTS

	2017 HK\$'000	2016 HK\$'000
– Salaries, bonus, staff allowances	263,121	235,263
– Director's fees	1,080	350
– Contributions to retirement benefit scheme	12,552	7,624
	<u>276,753</u>	<u>243,237</u>

During the year, no benefits were provided in respect of the termination of the service of directors and the Group did not incur any payment to third parties for making available directors' services.

Five highest paid individuals

The five individuals whose emolument were the highest in the Group include one and nil director whose emolument is reflected in the analysis below for the years ended 31 December 2017 and 2016.

The emolument payable to the remaining individuals (excluding directors) during the year are as follows:

Number of individuals

	2017	2016
Individuals		
Emolument bands		
1,500,001 – 2,000,000	–	–
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	–	–
3,000,001 – 3,500,000	–	–
4,000,001 – 4,500,000	–	–
4,500,001 – 5,000,000	–	2
5,000,001 – 5,500,000	–	1
5,500,001 – 6,000,000	2	1
7,000,001 – 7,500,000	1	–
7,500,001 – 8,000,000	–	–
8,000,001 – 8,500,000	–	1
12,500,001 – 13,000,000	1	–
	<u>4</u>	<u>5</u>
Number of individuals		

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

8. STAFF COSTS (Continued)

Five highest paid individuals (Continued)

Details of the remuneration payable to the remaining four and five individuals for the years ended 31 December 2017 and 2016 respectively, whose emoluments were highest in the Group are as follows:

	2017 HK\$'000	2016 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	10,065	11,215
Contribution to retirement benefit scheme	669	712
Bonus	20,695	17,017
	31,429	28,944

9. BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

The remuneration of every director and chief executive is set out below:

For the year ended 31 December 2017:

Name	Fees	Salaries, housing, other allowances and benefits in kind	Discretionary bonus	Employer's contribution to a retirement benefit scheme	Total
Tan Yueheng ^{(2), (5)}	-	3,065	1,740	296	5,101
Li Ying ⁽⁵⁾	-	2,750	1,100	164	4,014
Cheng Chuange ⁽⁵⁾	-	1,842	2,002	262	4,106
Wang Yijun	-	-	-	-	-
Lin Zhihong	-	-	-	-	-
Shou Fugang	-	-	-	-	-
Xi Xuanhua ⁽⁶⁾	-	2,940	2,490	262	5,692
Independent Non-executive Director:					
Tse Yung Hoi	360	-	-	-	360
Ma Ning ⁽⁷⁾	360	-	-	-	360
Lin Zhijun ⁽⁷⁾	360	-	-	-	360
Total	1,080	10,597	7,332	984	19,993

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

9. BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments (Continued)

For the year ended 31 December 2016:

Name	Fees	Salaries, housing, other allowances and benefits in kind	Discretionary bonus	Employer's contribution to a retirement benefit scheme	Total
Niu Ximing ^{(1), (3)}	-	-	-	-	-
Tan Yueheng ^{(2), (5)}	-	2,404	1,740	269	4,413
Li Ying ⁽⁵⁾	-	2,240	1,710	145	4,095
Cheng Chuange ⁽⁵⁾	-	1,605	1,800	238	3,643
Wang Yijun	-	-	-	-	-
Lin Zhihong	-	-	-	-	-
Ma Xutian ⁽⁴⁾	-	-	-	-	-
Shou Fugang	-	-	-	-	-
Independent Non-executive Director:					
Tse Yung Hoi	228	-	-	-	228
Ma Ning ⁽⁷⁾	61	-	-	-	61
Lin Zhijun ⁽⁷⁾	61	-	-	-	61
Total	<u>350</u>	<u>6,249</u>	<u>5,250</u>	<u>652</u>	<u>12,501</u>

- (1) The remuneration of Niu Ximing was borne by the ultimate holding company. No apportionment of the remunerations between the ultimate holding company and the Company has been made for the years ended 31 December 2016.
- (2) Tan Yueheng was appointed to be the Chief Executive Officer in July 2007 and ceased to be the Chief Executive Officer in July 2016. Tan Yueheng was appointed to be the Chairman of the Board in July 2016.
- (3) Niu Ximing ceased to be Director effective from July 2016.
- (4) Ma Xutian ceased to be Director effective from March 2016.
- (5) Tan Yueheng, Li Ying and Cheng Chuange were appointed to be Executive Directors in October 2016.
- (6) Xi Xuanhua was appointed to be Deputy Chief Executive Officer in July 2017.
- (7) Ma Ning and Lin Zhijun were appointed to be Directors effective from October 2016.

No directors waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Directors during the years ended 31 December 2017 and 2016.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

10. OTHER OPERATING EXPENSES

	2017 HK\$'000	2016 HK\$'000
Exchange and clearing fees	24,172	22,960
Operating lease charges	57,466	52,567
Office and maintenance expenses	29,928	27,205
IT expenses	27,226	26,145
Motor and travelling expenses	8,743	9,470
Bank charges	3,416	6,492
Legal and professional fee	11,172	8,021
Business development expenses	6,081	3,790
Recruitment expenses	5,045	4,820
Business tax expenses	229	1,569
Auditor's remuneration	2,790	728
Others	5,408	20,907
Listing related expenses	29,634	15,017
	211,310	199,691

11. IMPAIRMENT LOSSES

	2017 HK\$'000	2016 HK\$'000
Impairment losses on:		
Loans and advances (Note 22)	–	18,197
Accounts receivable from corporate finance and underwriting business (Note 23)	60,604	20,094
Margin loans to customers (Note 25)	19,771	8,260
	80,375	46,551

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

12. INCOME TAX EXPENSE

	2017 HK\$'000	2016 HK\$'000
Current tax:		
Hong Kong Profit Tax	33,879	39,064
PRC Enterprise Income Tax	–	10,669
(Over)/under provision in prior years	<u>(874)</u>	<u>2,410</u>
Total current tax	33,005	52,143
Deferred tax (Note 31):		
(Reversal)/addition from temporary difference	<u>(354)</u>	<u>420</u>
Income tax expense recognised in profit or loss	<u>32,651</u>	<u>52,563</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the years. Taxation on overseas profits has been calculated on the estimated assessable profit for the years at the rates of taxation prevailing in the countries in which the Group operates.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the People's Republic of China's entities is 25% from 1 January 2008 onwards.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before taxation	<u>436,163</u>	<u>403,515</u>
Tax at the income tax rate of 16.5%	71,967	66,580
Tax effect of expenses not deductible for tax purpose	11,721	5,664
Tax effect of income not taxable for tax purpose	(41,107)	(8,838)
Tax effect of tax losses not recognized	3,264	1,046
Utilisation of tax losses not previously recognized	(11,436)	(18,406)
(Over)/under provision in prior years	(1,228)	2,410
Effect of different tax rates of subsidiaries operating in the PRC	(692)	3,591
Others	<u>162</u>	<u>516</u>
Tax charge for the year	<u>32,651</u>	<u>52,563</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

13. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to shareholders of the Company (HK\$'000)	403,907	350,609
Weighted average number of ordinary shares in issue (in '000 shares)	<u>2,451,908</u>	<u>2,000,000</u>
Earnings per share (in HKD per share)	<u>0.16</u>	<u>0.18</u>

(b) Diluted

For the years ended 31 December 2017 and 2016, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

14. DIVIDENDS

	2017 HK\$'000	2016 HK\$'000
Final dividend proposed after the end of the reporting period of HK\$0.08 per ordinary share (2016: Nil)	<u>218,751</u>	<u>–</u>

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

15. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
Cost					
At 1 January 2016	28,122	3,485	6,490	62,491	100,588
Additions	5,154	231	–	8,792	14,177
Disposals	–	–	–	(3,464)	(3,464)
Exchange adjustments	1	–	–	–	1
At 31 December 2016 and 1 January 2017	33,277	3,716	6,490	67,819	111,302
Additions	3,188	805	–	5,892	9,885
Disposals	(17)	(40)	–	(478)	(535)
Exchange adjustments	–	–	–	–	–
At 31 December 2017	<u>36,448</u>	<u>4,481</u>	<u>6,490</u>	<u>73,233</u>	<u>120,652</u>
Accumulated depreciation					
At 1 January 2016	26,564	3,070	6,351	48,673	84,658
Charge for the year	2,398	224	65	7,636	10,323
Disposals	–	–	–	(3,464)	(3,464)
Exchange differences	1	–	–	–	1
At 31 December 2016 and 1 January 2017	28,963	3,294	6,416	52,845	91,518
Charge for the year	1,801	291	64	6,529	8,685
Disposals	(17)	(40)	–	(477)	(534)
Exchange differences	–	–	–	–	–
At 31 December 2017	<u>30,747</u>	<u>3,545</u>	<u>6,480</u>	<u>58,897</u>	<u>99,669</u>
Carrying values					
At 31 December 2016	<u>4,314</u>	<u>422</u>	<u>74</u>	<u>14,974</u>	<u>19,784</u>
At 31 December 2017	<u>5,701</u>	<u>936</u>	<u>10</u>	<u>14,336</u>	<u>20,983</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

16. INTANGIBLE ASSETS

The Group holds four trading rights of The Stock Exchange of Hong Kong Limited (the “SEHK”).

	2017 HK\$'000	2016 HK\$'000
Trading rights of the SEHK	3,196	3,196

The above intangible assets are considered by the directors as having an indefinite useful life because the trading rights of the SEHK are expected to contribute to net cash inflows indefinitely. The intangible assets will not be amortised until their useful lives are determined to be finite. Instead, the intangible assets will be tested for impairment annually.

For the purpose of impairment testing on the intangible assets held by the Group, the recoverable amounts have been determined based on fair values less costs of disposal. For the years ended 31 December 2017 and 2016, no impairment loss for intangible assets was recognised, and there were no additions nor disposals of intangible assets.

17. INVESTMENT IN SUBSIDIARIES

As at 31 December 2017, the Company had direct or indirect interests in the following principal subsidiaries:

Name of subsidiaries	Place of incorporation, operation and kind of Legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the group		Directly held/indirectly held
				2017	2016	
BOCOM International (Asia) Ltd.	Hong Kong, Limited Liability Company	Corporate finance	HKD10,000,000	100%	100%	Directly
BOCOM International Securities Ltd.	Hong Kong, Limited Liability Company	Dealing in securities and futures	2017: HKD1,100,000,000 2016: HKD1,000,000,000	100%	100%	Directly
BOCOM International Asset Management Ltd.	Hong Kong, Limited Liability Company	Asset management	HKD50,000,000	100%	100%	Directly
BOCOM International (Shanghai) Equity Investment Management Co., Ltd.* 交銀國際(上海)股權投資管理有限公司	Shanghai, Limited Liability Company	Investment management and advisory service	2017: USD33,000,000 2016: USD20,000,000	100%	100%	Directly

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

17. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation, operation and kind of Legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the group		Directly held/indirectly held
				2017	2016	
BOCOM International China Fund G.P.	Cayman Islands, General Partnership	Investment management	USD1	100%	100%	Directly
BOCOM International China Dynamic Fund	Hong Kong, Investment fund of unit trust	Investment trading	2017: RMB45,328,182 2016: RMB39,739,570	65.12%	58.25%	Directly
Shanghai Bole Investment Co., Ltd* 上海博樂投資有限公司	Shanghai, Limited Liability Company	Investment trading	2017: RMB32,000,000 2016: RMB5,000,000	100%	100%	Indirectly
BOCOM International (Shanghai) Equity Investment Fund I L.P.* 交銀國際一期(上海)股權投資基金合夥企業(有限合夥)	Shanghai, Limited Partnership	Investment trading	RMB71,425,000	93.64%	93.64%	Indirectly
Shanghai Boli Investment Co., Ltd* 上海博禮投資有限公司	Shanghai, Limited Liability Company	Investment trading	2017: RMB11,000,000 2016: RMB1,000	100%	100%	Indirectly
Preferred Investment Management Limited	British Virgin Islands, Limited Liability Company	Investment management	USD100	100%	100%	Indirectly
BOCOM International Futures Limited**	Hong Kong, Limited Liability Company	Dealing in futures	2017: HKD10,000,000 2016: HKD5,000,000	100%	100%	Indirectly

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

17. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation, operation and kind of Legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the group		
				2017	2016	Directly held/indirectly held
BOCOM International Equity Investment Management (Shenzhen) Company Limited* 交銀國際股權投資管理(深圳)有限公司	Shenzhen, Limited Liability Company	Investment management	USD1,050,000	100%	–	Indirectly
BOCOM International Global Fund SPC	Cayman Islands, Limited Liability Company	Investment	USD1	100%	100%	Indirectly
BOCOM International Global Investment 2 Limited	British Virgin Islands, Limited Liability Company	Investment	USD1	100%	100%	Indirectly
BOCOM International Global Investment 3 Limited	British Virgin Islands, Limited Liability Company	Investment	USD1	100%	100%	Indirectly

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

** BOCOM International Futures Limited ceased the business of regulated activities on 9 January 2018.

All the subsidiaries have adopted 31 December as their financial year end date for statutory reporting purpose.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

18. INTEREST IN ASSOCIATES

The amounts recognised in the statement of financial position are as follows:

	2017 HK\$'000	2016 HK\$'000
Unlisted investment at the beginning of the year	86,769	99,331
Accumulated profit after acquisition	15,947	6,042
Contribution for the year	–	–
Distribution for the year	–	(12,562)
Share of profit for the year	998	9,905
Interest in associates	103,714	102,716

Set out below is the associate of the Group as at 31 December 2017 which, in the opinion of the directors, is material to the Group. The associate as listed below has share capital consisting solely of ordinary shares, which are held indirectly by the Group; the country of incorporation or registration is also its principal place of business.

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2017	2016
ChinaStar Limited for International Economic & Technical Cooperation* 中國四達國際經濟技術合作有限公司	Beijing, Limited Liability Company	Human Resource Consulting	Equity	RMB113,518,400	37.46%	37.46%

* The English translation of the names is for reference only. The official name of the entity is in Chinese.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

18. INTEREST IN ASSOCIATES (Continued)

Set out below are the summarised financial information for the significant associate of the Group which is accounted for using the equity method:

ChinaStar Limited for International Economic & Technical Cooperation

	2017 HK\$'000	2016 HK\$'000
Current		
Cash and cash equivalents	340,842	240,836
Other current assets (excluding cash)	73,022	169,793
Total current assets	413,864	410,629
Financial liabilities (excluding accounts payables)	24,441	155,116
Other current liabilities (including accounts payables)	279,832	146,378
Total current liabilities	304,273	301,494
Non-current		
Total non-current assets	57,271	62,956
Financial liabilities	–	–
Other liabilities	3,644	3,529
Total non-current liabilities	3,644	3,529
Net assets	163,218	168,562
Net assets attributable to shareholders	163,218	168,000
Reconciled to the Group's interests in the associate:		
Group's effective interest	37.46%	37.46%
Group's share of net assets of associates	103,713	102,715
Carrying amount	103,713	102,715

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

18. INTEREST IN ASSOCIATES (Continued)

ChinaStar Limited for International Economic & Technical Cooperation (Continued)

	2017 HK\$'000	2016 HK\$'000
Revenue	240,958	165,844
Investment gains	505	–
Depreciation	(5,871)	(5,934)
Interest income	4,195	2,592
Interest expense	–	(90)
	25,730	20,958
Profit before taxation	(7,833)	(7,050)
Income tax expense		
Profit after taxation	17,897	13,908
Other comprehensive income	–	–
Total comprehensive income	17,897	13,908
Dividends received from associate	–	8,220
Reconciled to the Group's share of results of associates:		
Group's effective interest	37.46%	37.46%
Group's share of profit after taxation of associates for the year*	7,159	5,563
Group's share of other comprehensive income of associates for the year	–	–

For the year ended 31 December 2017, the Group's total share of profit after taxation of ChinaStar Limited for International Economic & Technical Cooperation is HK\$998 thousand, including the share of loss of HK\$6,161 thousand due to over-accrual for the year ended 31 December 2016.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

19. INTEREST IN A JOINT VENTURE

	2017 HK\$'000	2016 HK\$'000
Balance at beginning of year	1,769	–
Addition	–	1,769
Share of profit for the year	13	–
Balance at end of year	<u>1,782</u>	<u>1,769</u>

Set out below is the joint venture of the Group as at 31 December 2017, which is held indirectly by the Group.

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2017	2016
BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd* 交銀中兵(珠海)股權投資管理有限公司	Zhuhai, Limited Liability	Investment management and consultancy services	Equity	RMB3,000,000	51%	51%

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

19. INTEREST IN A JOINT VENTURE (Continued)

Set out below is the summarised financial information for the joint venture which is accounted for using the equity method:

BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd

	2017 HK\$'000	2016 HK\$'000
Current		
Cash and cash equivalents	3,643	3,471
Other current assets (excluding cash)	—	—
Total current assets	<u>3,643</u>	<u>3,471</u>
Financial liabilities (excluding accounts payables)	—	—
Other current liabilities (including accounts payables)	149	2
Total current liabilities	<u>149</u>	<u>2</u>
Non-current		
Total non-current assets	<u>—</u>	<u>—</u>
Financial liabilities	—	—
Other liabilities	—	—
Total non-current liabilities	<u>—</u>	<u>—</u>
Net assets	<u>3,494</u>	<u>3,469</u>
Group's share of net assets of joint venture	<u>1,782</u>	<u>1,769</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

19. INTEREST IN A JOINT VENTURE (Continued)

BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd (Continued)

	2017 HK\$'000	2016 HK\$'000
Revenue	101	2
Interest income	–	–
Operating expenses	(72)	(2)
Investment loss	–	–
	<u>29</u>	<u>–</u>
Profit before taxation	29	–
Income tax income	(3)	–
	<u>26</u>	<u>–</u>
Profit after taxation	26	–
	<u>13</u>	<u>–</u>
Group's share of profit	13	–
Dividends received from joint venture	–	–
	<u>–</u>	<u>–</u>

20. OTHER ASSETS

	2017 HK\$'000	2016 HK\$'000
Central Clearing and Settlement System — Guarantee Fund	25,104	16,997
Contribution in cash to Compensation Fund of SEHK	150	150
Contribution in cash to the Fidelity fund of SEHK	150	150
Reserve fund deposits with the Hong Kong Futures Exchange (“HKFE”) Clearing Corporation Limited	3,955	4,173
Reserve fund deposits with the SEHK Options Clearing House Limited (“SEOCH”)	12,033	6,607
Admission fee paid to the Hong Kong Securities Clearing Company Limited	150	150
Stamp duty deposit	500	500
	<u>42,042</u>	<u>28,727</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

21. FINANCIAL ASSETS AND LIABILITIES

The table below summarised the information relating to the fair value hierarchy of financial assets and financial liabilities measured at fair value on a recurring basis.

	At 31 December 2017			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Available-for-sale investments				
Equity securities	1,573	–	–	1,573
Debt investments	1,895,520	100,000	552,372	2,547,892
Preference shares	1,310,343	–	405,627	1,715,970
Club debenture	–	–	2,099	2,099
Unlisted equity	–	–	59,537	59,537
Unlisted funds	–	–	197,715	197,715
	<u>3,207,436</u>	<u>100,000</u>	<u>1,217,350</u>	<u>4,524,786</u>
Financial assets at fair value through profit or loss				
Equity securities	43,220	–	–	43,220
Debt investments	571,345	–	–	571,345
Funds	36,944	–	–	36,944
Unlisted funds	–	–	1,663,185	1,663,185
Preference shares	–	–	346,331	346,331
Unlisted equity	–	–	10,306	10,306
Structured financial product	–	–	86,328	86,328
	<u>651,509</u>	<u>–</u>	<u>2,106,150</u>	<u>2,757,659</u>
Derivative financial assets	<u>831</u>	<u>–</u>	<u>–</u>	<u>831</u>
Financial liabilities at fair value through profit or loss				
Financial liabilities to the investors of the funds consolidated	<u>(18,858)</u>	<u>–</u>	<u>–</u>	<u>(18,858)</u>
Derivative financial liabilities	<u>–</u>	<u>(803)</u>	<u>–</u>	<u>(803)</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

21. FINANCIAL ASSETS AND LIABILITIES (Continued)

	At 31 December 2016			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Available-for-sale investments				
Equity securities	31,570	–	–	31,570
Debt investments	1,524,358	100,000	–	1,624,358
Preference shares	1,303,902	–	77,420	1,381,322
Club debenture	–	–	1,952	1,952
Unlisted equity	–	–	53,902	53,902
Unlisted fund	–	–	39,537	39,537
	<u>2,859,830</u>	<u>100,000</u>	<u>172,811</u>	<u>3,132,641</u>
Financial assets at fair value through profit or loss				
Equity securities	32,137	–	–	32,137
Debt investments	400,859	–	–	400,859
Funds	27,352	–	–	27,352
Unlisted equity	–	–	105,672	105,672
	<u>460,348</u>	<u>–</u>	<u>105,672</u>	<u>566,020</u>
Derivative financial assets	<u>359</u>	<u>–</u>	<u>–</u>	<u>359</u>
Financial liabilities at fair value through profit or loss				
Financial liabilities to the investors of the funds consolidated	<u>(18,446)</u>	<u>–</u>	<u>–</u>	<u>(18,446)</u>
Derivative financial liabilities	<u>–</u>	<u>(354)</u>	<u>–</u>	<u>(354)</u>

Details of disclosure for fair value measurement are set out in note 38.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

22. LOANS AND ADVANCES

	2017 HK\$'000	2016 HK\$'000
Gross loans and advances	1,749,090	270,970
Less: Loan impairment allowances	(270,970)	(270,970)
	<u>1,478,120</u>	<u>–</u>
Net loans and advances		
Non-current portion	384,572	–
Current portion	1,093,548	–
	<u>1,478,120</u>	<u>–</u>

Loan impairment allowances

	2017 HK\$'000	2016 HK\$'000
At 1 January	270,970	364,271
Impairment allowances charged during the year (Note 11)	–	18,197
Loans and advances written off during the year as uncollectible	–	(111,498)
At year end	<u>270,970</u>	<u>270,970</u>

The maximum exposure to credit risk at the reporting date is the carrying value of loans and advances above.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

23. ACCOUNTS RECEIVABLE

	2017 HK\$'000	2016 HK\$'000
Corporate finance and underwriting business	105,599	158,398
Less: impairment losses (Note 11)	(60,604)	(20,094)
	44,995	138,304
Dealing in securities and futures business:		
– Clients	165,831	223,435
– Brokers	87,989	86,155
– Clearing house	262,175	137,132
	515,995	446,722
	560,990	585,026

The following is an ageing analysis of accounts receivable based on the date of invoice/contract note at the reporting date:

	2017 HK\$'000	2016 HK\$'000
Neither past due nor impaired	551,726	578,023
Less than 31 days past due	177	4,351
31 – 60 days past due	3	169
61 – 90 days past due	–	50
Over 90 days past due	9,084	2,433
	9,264	7,003
	560,990	585,026

Clients receivables from securities dealing are receivable on the settlement dates of their respective transactions, normally two or three business days after the respective trade dates.

Notes to the Consolidated Financial Statements (Continued)

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23. ACCOUNTS RECEIVABLE (Continued)

The receivables from clients are interest bearing with interest rate of prime rate of Bank of Communications Hong Kong Branch plus 5%.

	2017 HK\$'000	2016 HK\$'000
Total market value of securities pledged as collateral in respect of the overdue accounts receivable – clients	<u>211,662</u>	<u>227,440</u>

The receivables from brokers are neither past due nor impaired. Brokers receivables are repayable on the settlement dates of their respective trade dates, normally two or three business days after the respective trade dates.

Clearing house receivables are repayable on the settlement dates of the respective trade dates, normally two or three business days after the respective trade dates.

For the receivables from corporate finance and underwriting business, the Group has policies for allowance for bad and doubtful debts which are based on the evaluation of collectability and ageing analysis of accounts receivable and on management's judgement, including the current credit worthiness and the past collection history of each client. Settlement is done based on the completion of each phase of the project.

24. OTHER RECEIVABLES AND PREPAYMENTS

	2017 HK\$'000	2016 HK\$'000
Other receivables	163,047	66,395
Prepayments	<u>9,079</u>	<u>8,809</u>
	<u>172,126</u>	<u>75,204</u>

25. MARGIN LOANS TO CUSTOMERS

Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading and are repayable on demand. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

25. MARGIN LOANS TO CUSTOMERS (Continued)

Margin loans are interest bearing with standard interest rate of prime rate to prime rate plus 3%.

	2017 HK\$'000	2016 HK\$'000
Gross margin loans to customers	6,444,821	5,131,520
Less: Impairment allowances	<u>(28,031)</u>	<u>(8,260)</u>
Net margin loans to customers	<u>6,416,790</u>	<u>5,123,260</u>

Impairment allowances

	2017 HK\$'000	2016 HK\$'000
At 1 January	8,260	–
Impairment allowances charged during the year (Note 11)	<u>19,771</u>	<u>8,260</u>
At year end	<u>28,031</u>	<u>8,260</u>
Margin loans to customers analysed by nature		
Institutions	4,744,714	3,081,558
Individuals	<u>1,672,076</u>	<u>2,041,702</u>
Total	<u>6,416,790</u>	<u>5,123,260</u>
Total market value of securities pledged as collateral in respect of margin loans to customers analysed by collateral		
Stocks	19,882,918	16,926,275
Debt securities	<u>164,488</u>	<u>6,463</u>
Total	<u>20,047,406</u>	<u>16,932,738</u>

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of the nature of the margin loan business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

26. AMOUNT(S) DUE FROM/(TO) THE ULTIMATE HOLDING COMPANY/ RELATED PARTIES

The amounts are unsecured, interest-free and repayable on demand.

27. CASH AND BANK BALANCES

	2017 HK\$'000	2016 HK\$'000
Current and savings accounts	1,123,138	452,347
Time deposits with original maturity of less than three months	122,490	50,092
Cash and cash equivalents	1,245,628	502,439
Time deposits with original maturity of more than three months	1,640	1,615
Collateralized cash	623,000	–
	<u>1,870,268</u>	<u>504,054</u>

Collateralized cash is the cash received as collateral in relation to an agreement of total return swap.

Bank balances carry interest at market rates

	2017	2016
Interest rates range	<u>0.01%-1.94%</u>	<u>0.01%-0.85%</u>

28. OTHER PAYABLES AND ACCRUED EXPENSES

	2017 HK\$'000	2016 HK\$'000
Other payables	13,401	42,270
Accrued expenses	24,744	66,100
	<u>38,145</u>	<u>108,370</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

29. ACCOUNTS PAYABLE

Accounts payable arising from the business of dealing in securities and options are as follows:

	2017 HK\$'000	2016 HK\$'000
Clients – trade settlement	388,080	80,142
Clearing house	2,588	14,341
Brokers	–	20,868
	<u>390,668</u>	<u>115,351</u>

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of these business.

The settlement terms of accounts payable arising from client businesses are normally two to three days after trade date or at specific terms agreed with clients, brokers or clearing house.

30. DEFERRED REVENUE

	2017 HK\$'000	2016 HK\$'000
Deferred revenue	<u>25,788</u>	<u>14,309</u>

Deferred revenue mainly represents payment received in advance for fund management and advisory services. They are recognised as revenue when the Group has rendered the services.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

31. DEFERRED TAX ASSETS

The analysis of deferred tax assets is as follows:

	2017 HK\$'000	2016 HK\$'000
Deferred tax assets to be recovered after more than 12 months	<u>656</u>	<u>302</u>

The gross movement on the deferred tax assets is as follows:

	2017 HK\$'000	2016 HK\$'000
Balance at beginning of year	302	722
Credited/(charged) to the income statement (Note 12)	<u>354</u>	<u>(420)</u>
Balance at end of year	<u>656</u>	<u>302</u>

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provision for staff costs HK\$'000	Accrued expenses HK\$'000	Rent free HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2016	<u>242</u>	<u>98</u>	<u>450</u>	<u>(68)</u>	<u>722</u>
Charged to the income statement	<u>(235)</u>	<u>(30)</u>	<u>(115)</u>	<u>(40)</u>	<u>(420)</u>
At 31 December 2016 and 1 January 2017	<u>7</u>	<u>68</u>	<u>335</u>	<u>(108)</u>	<u>302</u>
Credited to income statement	<u>354</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>354</u>
At 31 December 2017	<u>361</u>	<u>68</u>	<u>335</u>	<u>(108)</u>	<u>656</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

31. DEFERRED TAX ASSETS (Continued)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams.

	2017 HK\$'000	2016 HK\$'000
Approximate estimated unused tax losses available for offset against future profits	<u>245,773</u>	<u>260,730</u>

32. SHARE CAPITAL

	Number of shares		Share capital	
	2017 Thousand Shares	2016 Thousand Shares	2017 HK\$'000	2016 HK\$'000
Issued and fully paid				
Balance brought forward	2,000,000	2,000,000	2,000,000	2,000,000
Issuance of ordinary shares upon listing and exercise of over-allotment option	<u>734,392</u>	–	<u>1,942,216</u>	–
Balance carried forward	<u>2,734,392</u>	<u>2,000,000</u>	<u>3,942,216</u>	<u>2,000,000</u>

On 19 May 2017, the Company issued 666,680 thousand shares at HK\$2.68 per share pursuant to the initial public offering of the Company's shares for a total gross proceeds of HK\$1,786,702 thousand. On 14 June 2017, the Company issued 67,712 thousand shares at HK\$2.68 per share for a total gross proceeds of HK\$181,468 thousand pursuant to the partial exercise of the over-allotment option. The share capital of HK\$1,942,216 thousand is after the deduction of direct issuing cost amounting HK\$25,954 thousand (including underwriting fees and some other professional agency fees of the initial public offering).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

33. BORROWINGS

(a) Outstanding borrowings

	2017 HK\$'000	2016 HK\$'000
Bank loans and other borrowings		
Non-current – ultimate holding company (Note 34)	–	996,395
Non-current – authorised institutions	–	300,000
Non-current – others	–	–
	–	1,296,395
Current – ultimate holding company (Note 34)	2,804,118	–
Current – authorised institutions	6,641,124	3,551,620
Current – others	623,000	–
	10,068,242	3,551,620
Subordinated loans (Note 26)		
Non-current	–	–
Current	1,000,000	1,000,000
	1,000,000	1,000,000
Total	11,068,242	5,848,015

During the year ended 31 December 2017, the Group entered into a total return swap arrangement with external third parties, who initially paid cash of HK\$623 million. In return, the Group is required to pay total return from a margin loan to the counterparties. The arrangement could be terminated with agreement by the parties and the payable amount was included in the current portion of borrowings.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

33. BORROWINGS (Continued)

(b) Borrowings repayable

	2017 HK\$'000	2016 HK\$'000
Within 1 year	11,068,242	4,551,620
Between 1 and 2 years	–	1,296,395
Between 2 and 5 years	–	–
Over 5 years	–	–
	<u>11,068,242</u>	<u>5,848,015</u>

As at 31 December 2017, a current bank borrowing of HK\$300,377 thousand (2016: HK\$298,067 thousand) from other independent bank is secured by the preference shares of the Group of HK\$430,397 thousand (2016: HK\$427,986 thousand). No other bank borrowings are secured.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

34. RELATED PARTY TRANSACTIONS

Details of the Company's subsidiaries, associates and joint venture are disclosed in Note 17, 18 and 19. During the years ended 31 December 2017 and 2016, the Group entered into the following material transactions with related parties:

(a) Ultimate holding company

	2017 HK\$'000	2016 HK\$'000
Transaction		
Interest income from deposits*	851	2,052
Interest income from loans	–	28,176
Interest expenses	51,861	34,939
Commission income*	12,203	8,155
Commission expenses*	8,815	5,919
Asset management and advisory income*	7,820	2,564
Fund management fee income*	6,596	3,719
Underwriting fee income*	623	1,008
Rental expenses*	150	97
Other operating expenses*	156	102
Other operating expenses	1,233	1,343
Trading gains/(losses) from derivative transactions*	12,485	(7,874)
Realised gain on financial assets at fair value through profit or loss	3,319	–
Unrealised gain on financial assets at fair value through profit or loss	3,856	–
	<u>3,856</u>	<u>–</u>
	2017 HK\$'000	2016 HK\$'000
Balance of transaction		
Accounts receivable	17,478	40,705
Bank loans	2,804,118	996,395
Subordinated loans	1,000,000	1,000,000
Derivative financial liabilities	831	354
Accounts payable	222,866	145,463
Amount due to the ultimate holding company	6,080	5,806
	<u>6,080</u>	<u>5,806</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Fellow subsidiaries and an associate

	2017 HK\$'000	2016 HK\$'000
Transaction		
Asset management and advisory income*	10,803	11,217
Underwriting fee income*	5,424	6,968
Rental expenses*	8,682	8,990
Other operating expenses*	6,875	6,140
	<u> </u>	<u> </u>
	2017 HK\$'000	2016 HK\$'000
Balance of transaction		
Accounts receivable	103	1,089
	<u> </u>	<u> </u>

(c) Related parties

	2017 HK\$'000	2016 HK\$'000
Transaction		
Interest income from debt investment	10,859	–
Interest income from a loan	–	4,197
Fund management fee income*	8,958	10,865
Fund management fee income	25,942	13,455
	<u> </u>	<u> </u>
	2017 HK\$'000	2016 HK\$'000
Balance of transaction		
Amount due from related parties	3,392	16,093
	<u> </u>	<u> </u>

* The transaction also constituted connected transactions or continuing connected transactions. The details are disclosed under the Report of the Directors section.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

34. RELATED PARTY TRANSACTIONS (Continued)

(d) Key management personnel

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the Group, including members of the Board of Directors and other senior executives.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other short-term employee benefits	17,447	34,625
Termination benefits	–	–
Post-employment benefits	–	–
Other long-term benefits	1,446	–
Share-based payments	–	–
Total	18,913	34,625

For details of the key management personnel of the Group in 2017, please refer to the section headed "Biographies of Directors and Senior Management" of this annual report.

Notes

(i) Interest income from deposits

In the ordinary course of business, the Group placed its cash and cash equivalents and client monies with Bank of Communications Co., Ltd., Hong Kong Branch and PRC Branches.

(ii) Interest income from loans

Interest income was derived from loans made to the ultimate holding company and BOCOM International Global Investment Limited at market rates.

(iii) Interest expenses

In the ordinary course of business, the Group obtained subordinated loans, bank loans and IPO loans from its ultimate holding company, Bank of Communications Co., Ltd., Hong Kong Branch, to finance its margin financing activities and daily operations. The above bank borrowings were entered at the relevant market rates at the time of the transactions.

(iv) Commission income

Commission income was derived from the Group's securities brokerage business and determined on terms similar to those transactions conducted with independent third parties.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

34. RELATED PARTY TRANSACTIONS (Continued)

Notes (Continued)

(v) Commission expenses

The commission expenses represented rebate of brokerage commission income to the ultimate holding company and its fellow subsidiaries in respect of the securities brokerage transactions. The rates were mutually agreed by the ultimate holding company/fellow subsidiaries and the Group.

(vi) Asset management and advisory income

The Group has agreements with its ultimate holding company and associate, BOCOM Culture (Shanghai) Equity Investment L.P., under which the Group provides asset management and investment advisory services in return for asset management and advisory income.

The ultimate holding company has also appointed a subsidiary of the Group to provide asset management service to its clients.

(vii) Fund management fee income

The Group has agreements with its related parties, BOCOM International Dragon Core Growth Fund, Global Strategic Emerging Markets Bond Fund, BOCOM International Global Investment Limited, Horizon Investment Limited, Opportunity Investment Limited, Premium Investment Limited, Prosperity Investment Limited, Apex Investment Limited as well as the ultimate holding company under which the Group provides asset management and investment advisory services, in return for management fee income.

(viii) Underwriting fee income

Underwriting fee income represented underwriting services provided to the ultimate holding company and a fellow subsidiary in relation to notes issuance.

(ix) Interest income from debt investment

Interest income from debt investment represented the interest income earned from investing in a senior note issued by a related party.

(x) Bank loans

A portion of the bank loan was obtained from the ultimate holding company. Details of the bank loan are stated in Note 33(a).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

34. RELATED PARTY TRANSACTIONS (Continued)

Notes (Continued)

(xi) Subordinated loans

The subordinated loans from the ultimate holding company are unsecured and bear floating interest. Details of the subordinated loans are stated in Note 33(a).

(xii) Rental expenses

The office rental expenses paid to the fellow subsidiaries was agreed by the fellow subsidiaries and the Group. The carpark rental expenses paid to the ultimate holding company and fellow subsidiaries was agreed by the ultimate holding company, fellow subsidiaries and the Group.

(xiii) Other operating expenses

The other operating expenses mainly included system usage fee, bank charges, custody fee, professional fee and insurance expense.

(xiv) Trading gains/losses and derivative financial liabilities from derivative transactions

Trading gains/losses and derivative financial liabilities from derivatives transactions represented gains/losses from over-the-counter derivatives transactions in respect of commodities entered into between the Group and the ultimate holding company. The Group had effectively offset the risk by entering into exchange-traded futures contracts.

(xv) Accounts receivable and accounts payable

They were balances due from/to the ultimate holding company, fellow subsidiaries and associate in the Group's ordinary course of business.

(xvi) Amount(s) due from/(to) the ultimate holding company/an associate/a fellow subsidiary/related parties

The amounts are unsecured, interest-free and repayable on demand and are of trade nature.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

35. STRUCTURED ENTITIES

The Group engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

(a) Unconsolidated structured entities

The Group has been involved in unconsolidated structured entities through investments in structured entities or acting as the investment manager of the structured entities. The unconsolidated structured entities consist primarily of special purpose vehicles (“SPV”) for investment trading on asset management business. The SPVs invest in a range of assets, most typically are bonds, unit trusts and preference shares. As the manager of the structured entities, the Group invests, on behalf of its clients, in the assets as described in the investment plan related to each fund and receives management fee income. The Group’s remuneration as investment manager is limited to management fees and performance fees at market level and does not share significant variable returns of the investment, except for three SPVs, of which the Group has direct interest in an underlying asset. The Group records trading gains or losses from its investment in the structured entities. These structured entities are not consolidated by the Group.

Interests in unconsolidated structured entities and maximum exposure to unconsolidated structured entities

As at 31 December 2017 and 2016, the Group’s total interests in unconsolidated structured entities on the consolidated statements of financial position and maximum exposure to loss from its interests in unconsolidated structured entities are summarised in the table below:

	2017 HK\$’000	2016 HK\$’000
Available-for-sale investment	617,638	90,666
Financial assets at fair value through profit or loss	36,944	27,352
Maximum exposure to loss	<u>1,640,159</u>	<u>1,112,198</u>

The Group’s maximum exposure to loss is greater than the carrying amount of the Group’s investments as the Group provides guarantee on the investment principal and return to one of the unconsolidated structured entities. However, the Group is of the view that the guaranteed return matches the expected portfolio return, hence the guaranteed return does not increase the risk of its involvement in this structured entity.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

35. STRUCTURED ENTITIES (Continued)

(a) Unconsolidated structured entities (Continued)

Size of unconsolidated structured entities

The size of structured entities is measured by the fair value of investments managed by the unconsolidated structured entities. As at 31 December 2017 and 2016, the fair value of investments managed by the unconsolidated structured entities are summarised in the table below:

	2017 HK\$'000	2016 HK\$'000
Fair value of investments managed by the unconsolidated structure entities	<u>18,996,893</u>	<u>11,353,722</u>

Transactions with unconsolidated structured entities

For the years ended 31 December 2017 and 2016, the Group earned management fees for its investment management service in relation to fund. Interest income is recognised on the loans provided to structured entities and interest earned on holding the senior notes issued by structured entities. The total income derived from involvement with unconsolidated structured entities are summarised in the table below.

	2017 HK\$'000	2016 HK\$'000
Management fee income	52,325	41,261
Interest income	14,870	6,537
	<u>67,195</u>	<u>47,798</u>

(b) Consolidated structured entities managed and held by the Group

The Group has consolidated certain structured entities which are funds for investment trading on asset management business. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. The Group concludes that these structured entities shall be consolidated.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

35. STRUCTURED ENTITIES (Continued)

(b) Consolidated structured entities managed and held by the Group (Continued)

The size of consolidated structured entities is measured by the fair value of investments managed by the consolidated structured entities. As at 31 December 2017 and 2016, the fair value of investments managed by the consolidated structured entities are summarized in the table below:

	2017 HK\$'000	2016 HK\$'000
Fair value of investments managed by the consolidated structured entities	<u>135,906</u>	<u>123,315</u>

The financial impact of any individual fund on the Group's financial performance is not significant. The Group did not provide principal or return guarantee to any of the consolidated structured entities.

During the years ended 31 December 2017 and 2016, the Group did not provide financial support for any of the consolidated structured entities.

There were no contractual liquidity arrangements or other commitments between the Group, structured entities or any third parties that could increase the level of the Group's risk from or reduce its interest in structured entities during the years ended 31 December 2017 and 2016. No loss was incurred by the structured entities relating to the Group's interests in the structured entities, and the structured entities did not experience difficulty in financing their activities.

36. COMMITMENTS

Operating leases commitments

At the end of the reporting period, the Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases as follows:

	31/12/2017 HK\$'000	31/12/2016 HK\$'000
No later than one year	41,201	43,028
Later than 1 year and no later than 5 years	<u>34,344</u>	<u>36,892</u>
	<u>75,545</u>	<u>79,920</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

37. CONTINGENT LIABILITIES

Guaranteed return by asset management service

In connection with the Group's asset management service, the Group entered into a service agreement in August 2015 which provides a client with a guarantee on the investment principal and return. The investment principal amounted to MOP500,000 thousand. The service agreement will expire in August 2020. Performance of the relevant investment portfolios will be subject to uncertainties such as market conditions and volatility. The relevant investment portfolios mainly consist of fixed income instruments. In November 2016, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP500,000 thousand, which will expire in November 2021. During the years ended 31 December 2017 and 2016, the average yield of the relevant investment portfolios had been above the guaranteed return.

38. FINANCIAL RISK MANAGEMENT

38.1 Financial risk factors

The Group's major financial instruments include available-for-sale investments, financial assets at fair value through profit or loss, loans and receivables (made up of other assets, accounts and other receivables, loans and advances), margin loans to customers, amount due from an associate, cash and bank balances, accounts payable, borrowings, subordinated loans from the ultimate holding company and amount due to the ultimate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group, from time to time, uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Risk Management Department under policies approved by the Board of Directors. Risk Management Department identifies and evaluates certain risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk

Market risk refers to the adverse effect that normal or specific changes in foreign exchange rates, interest rates, commodity prices or stock prices may have on products involving interest rates, currencies and stocks. The Group's market risk mainly includes currency risk, interest rate risk and other price risks. The market risk management aims to manage and monitor market risk, keep the potential losses associated with market risk within an acceptable level and maximise the returns.

(i) Summary of financial assets and liabilities

	2017 HK\$'000	2016 HK\$'000
Financial assets		
Other assets	42,042	28,727
Loans and advances	1,478,120	–
Accounts receivable	560,990	585,026
Other receivables	163,047	66,395
Margin loans to customers	6,416,790	5,123,260
Amounts due from related parties	3,392	16,093
Available-for-sale investments	4,524,786	3,132,641
Financial assets at fair value through profit or loss	2,757,659	566,020
Derivative financial assets	831	359
Cash and bank balances	1,870,268	504,054
	17,817,925	10,022,575
Financial liabilities		
Borrowings	10,068,242	4,848,015
Subordinated loans from the ultimate holding company	1,000,000	1,000,000
Other payables	13,401	42,270
Accounts payable	390,668	115,351
Amount due to the ultimate holding company	6,080	5,806
Financial liabilities at fair value through profit or loss	18,858	18,446
Derivative financial liabilities	803	354
	11,498,052	6,030,242

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk

The Group undertakes certain transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's major foreign currency denominated monetary assets and monetary liabilities at year end is as follows:

	As at 31 December 2017				Total
	HKD	USD (in HKD equivalent)	RMB (in HKD equivalent)	Other foreign currencies (in HKD equivalent)	
Financial assets					
Other assets	38,313	–	3,729	–	42,042
Accounts receivable	448,616	87,747	20,741	3,886	560,990
Other receivables	67,937	79,933	15,177	–	163,047
Loan and advances	195,714	1,282,406	–	–	1,478,120
Margin loans to customers	6,306,728	108,243	1,819	–	6,416,790
Amounts due from related parties	1,430	1,904	58	–	3,392
Available-for-sale investments	335,111	4,126,846	3,292	59,537	4,524,786
Financial assets at fair value through profit or loss	230,863	2,383,556	143,240	–	2,757,659
Derivative financial assets	–	831	–	–	831
Cash and bank balances	1,532,200	278,371	51,145	8,552	1,870,268
Total financial assets	9,156,912	8,349,837	239,201	71,975	17,817,925
Financial liabilities					
Borrowings	4,733,000	5,335,242	–	–	10,068,242
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Other payables	10,610	2,789	2	–	13,401
Accounts payable	359,074	24,326	7,260	8	390,668
Amount due to the ultimate holding company	6,038	42	–	–	6,080
Financial liabilities at fair value through profit or loss	–	–	18,858	–	18,858
Derivative financial liabilities	–	803	–	–	803
Total financial liabilities	6,108,722	5,363,202	26,120	8	11,498,052
Net on-balance sheet position	3,048,190	2,986,635	213,081	71,967	6,319,873

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk (Continued)

	As at 31 December 2016				Total
	HKD	USD (in HKD equivalent)	RMB (in HKD equivalent)	Other foreign currencies (in HKD equivalent)	
Financial assets					
Other assets	27,595	–	1,132	–	28,727
Accounts receivable	443,276	113,288	28,267	195	585,026
Other receivables	22,163	36,134	8,098	–	66,395
Margin loans to customers	5,118,966	4,294	–	–	5,123,260
Amounts due from related parties	243	15,728	122	–	16,093
Available-for-sale investments	171,107	2,905,679	4,726	51,129	3,132,641
Financial assets at fair value through profit or loss	123,440	397,071	45,509	–	566,020
Derivative financial assets	–	359	–	–	359
Cash and bank balances	215,149	159,163	129,190	552	504,054
Total financial assets	6,121,939	3,631,716	217,044	51,876	10,022,575
Financial liabilities					
Borrowings	3,000,000	1,848,015	–	–	4,848,015
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Other payables	38,048	4,222	–	–	42,270
Accounts payable	67,183	39,052	3,480	5,636	115,351
Amount due to the ultimate holding company	5,713	93	–	–	5,806
Financial liabilities at fair value through profit or loss	–	–	18,446	–	18,446
Derivative financial liabilities	–	354	–	–	354
Total financial liabilities	4,110,944	1,891,736	21,926	5,636	6,030,242
Net on-balance sheet position	2,010,995	1,739,980	195,118	46,240	3,992,333

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Currency risk (Continued)

Currency risk refers to the risk that the Group's financial position with respect to foreign currency exposure will be affected as a result of fluctuations in major foreign exchange rates. The Group's currency risk mainly exposes to Renminbi, United States dollar and Singapore dollar currently. The directors of the Company consider the exchange rate of Hong Kong dollar against United States dollar is relatively stable under the current pegged rate system in Hong Kong. The other foreign currency are not material compared to the total assets and liabilities of the Group. In the opinion of the directors, the Group are not subject to significant currency risk exposure.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% change in Hong Kong dollar against the relevant foreign currencies. The 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 10% change in foreign currency rate. The number shown below indicates an increase in profit where Hong Kong dollar weakens against the relevant currency. For a 10% strengthening of Hong Kong dollar against the relevant currency, there would be an equal and opposite impact on the profit.

Impact on profit after taxation

	2017 HK\$'000	2016 HK\$'000
RMB	17,792	16,292
Other foreign currencies	6,009	3,861

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As at 31 December 2017	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
Financial assets								
Other assets	-	-	-	-	-	-	42,042	42,042
Loans and advances	-	-	-	1,093,548	384,572	-	-	1,478,120
Accounts receivable	-	560,990	-	-	-	-	-	560,990
Other receivables	-	-	-	-	-	-	163,047	163,047
Margin loans to customers	-	6,416,790	-	-	-	-	-	6,416,790
Amounts due from related parties	-	-	-	-	-	-	3,392	3,392
Available-for-sale investments	-	-	100,000	286,810	1,479,798	681,284	1,976,894	4,524,786
Financial assets at fair value through profit or loss	-	-	-	118,712	450,804	1,829	2,186,314	2,757,659
Derivative financial assets	-	-	-	-	-	-	831	831
Cash and bank balances	-	1,868,628	-	1,640	-	-	-	1,870,268
	<u>-</u>	<u>8,846,408</u>	<u>100,000</u>	<u>1,500,710</u>	<u>2,315,174</u>	<u>683,113</u>	<u>4,372,520</u>	<u>17,817,925</u>

As at 31 December 2017	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
Financial liabilities								
Borrowings	-	9,767,865	300,377	-	-	-	-	10,068,242
Subordinated loans from the ultimate holding company	-	1,000,000	-	-	-	-	-	1,000,000
Other payables	-	-	-	-	-	-	13,401	13,401
Accounts payable	-	-	-	-	-	-	390,668	390,668
Amount due to the ultimate holding company	-	-	-	-	-	-	6,080	6,080
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	18,858	18,858
Derivative financial liabilities	-	-	-	-	-	-	803	803
	<u>-</u>	<u>10,767,865</u>	<u>300,377</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,810</u>	<u>11,498,052</u>
Interest rate sensitivity gap	<u>-</u>	<u>(1,921,457)</u>	<u>(200,377)</u>	<u>1,500,710</u>	<u>2,315,174</u>	<u>683,113</u>	<u>3,942,710</u>	<u>6,319,873</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk (Continued)

As at 31 December 2016	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
Financial assets								
Other assets	-	-	-	-	-	-	28,727	28,727
Accounts receivable	-	585,026	-	-	-	-	-	585,026
Other receivables	-	-	-	-	-	-	66,395	66,395
Margin loans to customers	-	5,123,260	-	-	-	-	-	5,123,260
Amounts due from related parties	-	-	-	-	-	-	16,093	16,093
Available-for-sale investments	-	-	-	-	693,701	930,657	1,508,283	3,132,641
Financial assets at fair value through profit or loss	-	-	-	-	398,262	2,596	165,162	566,020
Derivative financial assets	-	-	-	-	-	-	359	359
Cash and bank balances	-	502,439	-	1,615	-	-	-	504,054
	-	6,210,725	-	1,615	1,091,963	933,253	1,785,019	10,022,575

As at 31 December 2016	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
Financial liabilities								
Borrowings	-	4,549,948	298,067	-	-	-	-	4,848,015
Subordinated loans from the ultimate holding company	-	1,000,000	-	-	-	-	-	1,000,000
Other payables	-	-	-	-	-	-	42,270	42,270
Accounts payable	-	-	-	-	-	-	115,351	115,351
Amount due to the ultimate holding company	-	-	-	-	-	-	5,806	5,806
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	18,446	18,446
Derivative financial liabilities	-	-	-	-	-	-	354	354
	-	5,549,948	298,067	-	-	-	182,227	6,030,242
Interest rate sensitivity gap	-	660,777	(298,067)	1,615	1,091,963	933,253	1,602,792	3,992,333

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk (Continued)

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to the "margin loans to customers", "cash and bank balances", "borrowings" and "subordinated loans from the ultimate holding company" as well as interest-bearing "accounts receivable" and "loans and advances" carried at amortised costs with floating interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") as its interest-bearing assets and liabilities are mainly Hong Kong dollar and United States Dollar denominated. The Group mainly manages interest rate risk through adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risk by diversification of assets.

	2017 HK\$'000	2016 HK\$'000
Assets		
Accounts receivable – dealing in securities and futures	515,995	446,722
Margin loans to customers	6,416,790	5,123,260
Loans and advances	1,478,120	–
Cash and bank balances	1,870,268	504,054
Liabilities		
Borrowings	(10,068,242)	(4,848,015)
Subordinated loans from the ultimate holding company	(1,000,000)	(1,000,000)
	<u>(787,069)</u>	<u>226,021</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk (Continued)

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at year end.

Change in basis points

	31 December			
	2017		2016	
	+25	-25	+25	-25
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation	(1,643)	1,643	472	(472)

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in debt securities classified as available-for-sale securities and financial assets at fair value through profit or loss carried at fixed interest rate. The Group monitors the interest rate risks by quantifying market exposure in duration terms.

The Group's fair value interest rate risk exposure is summarised as follows:

	2017	2016
	HK\$'000	HK\$'000
Available-for-sale investments – debt	2,547,892	1,624,358
Financial assets at fair value through profit or loss – debt	571,345	400,859

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit and equity for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk (Continued)

Change in basis points

	31 December			
	2017		2016	
	+25	-25	+25	-25
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation	(1,509)	1,518	(1,457)	1,942
Impact on equity	(14,338)	14,528	(14,583)	18,024

(iv) Other price risk

The Group are exposed to equity price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale, and fair value through profit or loss. The directors of the Company manage the exposure by closely monitoring the portfolio of investments.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

Profit after taxation for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iv) Other price risk (Continued)

Available-for-sale investments

	2017 HK\$'000	2016 HK\$'000
– Listed equity securities	1,573	31,570
– Preference shares	1,715,970	1,381,322
– Unlisted fund	197,715	39,537
– Unlisted equity	59,537	53,902
	<u>1,974,795</u>	<u>1,506,331</u>
Impact on equity		
Increases by 10%	197,480	150,633
Decreases by 10%	<u>(197,480)</u>	<u>(150,633)</u>

Financial assets at fair value through profit or loss

	2017 HK\$'000	2016 HK\$'000
– Listed equity securities	43,200	32,137
– Preference shares	346,331	–
– Funds	36,944	27,352
– Unlisted fund	1,663,185	–
– Unlisted equity	10,306	105,672
	<u>2,099,966</u>	<u>165,161</u>
Impact on profit after taxation		
Increases by 10%	175,347	13,791
Decreases by 10%	<u>(175,347)</u>	<u>(13,791)</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(iv) Other price risk (Continued)

Financial assets at fair value through profit or loss (Continued)

Derivative financial assets

	2017 HK\$'000	2016 HK\$'000
Derivative financial assets	<u>831</u>	<u>359</u>
Impact on profit after taxation		
Increases by 10%	69	30
Decreases by 10%	<u>(69)</u>	<u>(30)</u>

Financial liabilities at fair value through profit or loss

	2017 HK\$'000	2016 HK\$'000
Financial liabilities to the investors of the funds consolidated	<u>(18,858)</u>	<u>(18,446)</u>
Impact on profit after taxation		
Increases by 10%	(1,575)	(1,540)
Decreases by 10%	<u>1,575</u>	<u>1,540</u>

Derivative financial liabilities

	2017 HK\$'000	2016 HK\$'000
– Derivative financial liabilities	<u>(803)</u>	<u>(354)</u>
Impact on profit after taxation		
Increases by 10%	(67)	(30)
Decreases by 10%	<u>67</u>	<u>30</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk

The Group's and the Company's credit risk arises from the possibility that a client or counterparty in a transaction may default. Credit exposures arise principally in debt securities, derivative financial assets, accounts receivable, loans and advances, margin loans to customers, other assets, amount(s) due from the ultimate holding company/subsidiaries/an associate/related parties, other receivables, cash and bank balances and subordinated loans to subsidiaries. In order to minimise the credit risk, the Group and the Company have credit policies in place and the exposure to this risk is monitored on an ongoing basis. The Group and the Company employ a range of policies and practises to mitigate credit risk.

The Credit Committee is mainly in charge of the risk management of the securities brokerage and margin financing business and the implementation of the credit risk policies. The primary responsibilities of the Credit Committee include: (i) monitoring the risk management performance with reference to the various risk indicators, such as the loan-to-margin ratio and loan-to-value ratio, the percentage of margin loans attributable to the Group's top 20 customers by loan balance, and margin loan balance attributable to a single client; (ii) maintaining a list of shares qualified as collateral for the margin financing business and reviewing such list periodically; (iii) approving customers' applications on trading limit and credit limit; and (iv) developing risk management policies for transactions of cash accounts and institutional clients as well as settlement arrangements.

The Risk Management Committee is primarily responsible for designing the risk management structure and strategies for the principal businesses, reviewing and monitoring the implementation of risk management policies for the principal businesses, identifying risks and updating the risk management policies in response to changes. The Credit Risk Team of the Risk Management Department is responsible for the credit risk management of the securities brokerage and margin financing business, participating in the review process and supervising the relevant risk management work.

The Group seeks to control the credit risk exposure within the tolerance level and maximise the risk adjusted returns by identifying, quantifying, monitoring and managing credit risk based on the risk preference and net capital level. The Group has established a credit risk management framework covering all stages from due diligence, credit review, collateral management to post-loan credit examination. The Group monitors the loan-to-margin ratio and loan-to-value ratio on a regular basis of each client to whom the Group has provided financing and take appropriate actions to recover or minimise the losses. A daily report on the client's outstanding loan amount, value of the collateral and loan-to-margin and loan-to-value ratio is generated for the Group's ongoing monitoring and review. The Group has utilised tools such as limit indicators, admission criteria, due diligence standards and internal audit requirements in developing the business in accordance with the Group's risk appetite.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancement:

	2017 HK\$'000	2016 HK\$'000
Other assets	42,042	28,727
Loans and advances	1,478,120	–
Accounts receivable	560,990	585,026
Other receivables	163,047	66,395
Margin loans to customers	6,416,790	5,123,260
Amounts due from related parties	3,392	16,093
Available-for-sale investments – debt	2,547,892	1,624,358
Financial assets at fair value through profit or loss – debt	571,345	400,859
Derivative financial assets	831	359
Cash and bank balances	1,870,268	504,054
	<u>13,654,717</u>	<u>8,349,131</u>

Other assets

Other assets are mainly guarantee fund and reserve funds maintained with Central Clearing and Settlement System, Hong Kong Futures Exchange (“HKFE”) Clearing Corporation Limited and SEHK Options Clearing House Limited (“SECH”).

Loans and advances

The Group and the Company assess credit risk of loans to corporate clients by performing credit assessments, which are also subject to regular review and monitoring.

For the loans guaranteed by a third party, the Group will assess the guarantor’s financial condition, credit history and ability to meet obligations.

Risk Management Department provides regular credit management information reports and ad hoc reports to the Risk Committee, Investment Committee and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the Group identifies credit concentration risk by industry, geography, client and counterparty. The Group monitors changes to counterparty risk, quality of the credit portfolio and concentration risk, and reports regularly to the Group’s Management.

The Group adopts loan grading criteria which divides credit assets into five categories with reference to the regulator’s guidelines and alignment with the regulation of parent company – Bank of Communications Co., Ltd. as below:

“Pass” represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Loans and advances (Continued)

“Special Mention” represents loans where the borrower is experiencing difficulties which may threaten the Group’s position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

“Substandard” represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

“Doubtful” represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

“Loss” represents loans which are considered uncollectible after all collection options (such as the realization of collateral or the institution of legal proceedings) have been exhausted.

Accounts receivable

For accounts receivable arising from the Group’s and the Company’s corporate finance and underwriting activities, due diligence on client’s business and repayment ability will be conducted before granting of credit. Corporate Finance, Equity Capital Markets and Debt Capital Markets Department will closely update the client’s business change through frequent contact with client. Exit strategies are set in place before granting of each credit.

Credit risk from client securities dealing receivables under securities brokerage business is normally controlled through delivery-against-payment settlement and custody arrangement.

Evaluations, supplemented by assessments of underlying collaterals, are performed on all clients requiring credit. Those receivables arising from cash client accounts are due on two to three days after the trade date.

Other receivables

Other receivables that were neither past due nor impaired relate to a wide range of clients for whom that has no recent history of default. Receivables that were past due but not impaired relate to a number of independent clients that have a good track record with the Group and the Company. Based on past experience, senior management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Margin loans to customers

Margin clients of the Group are required to pledge their security investments to the Group for the facilities for securities trading. The amount of facilities granted to them is determined by the discounted values of the shares and is monitored on an ongoing basis.

The collateral for covering the credit risk exposure in case of default is subject to mark-to-market monitoring on a daily basis. Default, margin call and forced liquidation procedures are in place for margin clients. When a customer's margin loan balance exceeds the credit limit granted or a customer's loan-to-margin ratio exceeds 100%, the Group will generate an alert to help monitor its status and decide whether any additional collateral are required. Amongst the customers with loan-to-margin ratio in excess of 200%, the Group will take into consideration of various factors such as customers' background and the interest rate of loan, in particular, the loan-to-value ratio in excess of 70% in making requests for additional collateral.

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of the nature of the margin loan business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral accepted by the Group.

Amount(s) due from the ultimate holding company/subsidiaries/an associate/related parties

Amount(s) due from the ultimate holding company/subsidiaries/an associate/related parties represents various income receivable arising from normal business transactions. The amounts are unsecured, interest-free and repayable on demand.

Debt securities

Debt securities are classified as available-for-sale investments and financial assets at fair value through profit or loss. The debt securities are mainly listed in The Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange and some overseas exchanges. An Investment Committee of the Group and the Company assesses the financial strengths and performance of the issuers to ensure the issuers satisfy the repayment of principal and interest as they fall due. The Committee limits the size of the debt portfolio and limits the exposure to a single industry and issuer in order to control the credit risk. The Committee also closely monitors the changes in the credit ratings of the issuers and follows the market news for taking immediate actions if there is an indication of a deterioration of the repayment ability of the issuers.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Derivative financial assets

Derivative financial assets are commodity futures traded in active markets. The credit risk exposure is determined by the change in the market prices of the derivatives. The Group and the Company manages the credit risk by monitoring counterparty's credit rating and limiting its trades with stock exchanges.

Cash and bank balances

Cash and bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk arising from cash and bank balances is minimal.

Credit quality – debt securities and derivative financial instruments

The credit quality of debt securities and derivative financial instruments can be assessed by reference to credit ratings obtained from major rating agencies in the country where debt and derivative issuers are located (if available) or to historical information about counterparty default rates. The Group and the Company make reference to the credit rating by using Standard & Poor's rating. If there is no rating from Standard & Poor's, Moody's, Fitch's or other credit rating agencies rating will be used.

Available-for-sales investments – debt

	2017 HK\$'000	2016 HK\$'000
Standard & Poor's rating:		
A-	–	33,411
BBB+	67,490	177,306
BBB	266,546	292,000
BB+	55,091	106,946
BB	–	110,476
BB-	38,372	32,598
B+	–	71,531
B	231,719	109,095
B-	381,505	7,997
Moody's rating:		
Ba1	347,248	335,596
B1	–	101,335
B2	156,021	–
B3	49,122	–
No rating ⁽¹⁾	954,778	246,067
	2,547,892	1,624,358

⁽¹⁾ Financial assets with no rating represent listed and unlisted corporate debts.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

Financial assets at fair value through profit or loss – debt

	2017 HK\$'000	2016 HK\$'000
Standard & Poor's rating:		
AA-	3,386	3,787
BB-	139,342	–
Moody's rating:		
Baa1	109,219	–
No rating ⁽¹⁾	319,398	397,072
	<u>571,345</u>	<u>400,859</u>

⁽¹⁾ Financial assets with no rating represent listed and unlisted corporate debts.

Derivative financial assets

	2017 HK\$'000	2016 HK\$'000
No rating	<u>831</u>	<u>359</u>

Derivative financial liabilities

	2017 HK\$'000	2016 HK\$'000
Standard & Poor's rating:		
A-	<u>803</u>	<u>354</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The following tables show the credit exposure to accounts receivable, margin loans to customers and loans and advances.

At 31 December 2017	Neither past due nor impaired HK\$'000	Past due but not impaired HK\$'000	Impaired HK\$'000	Impairment allowance HK\$'000	Total HK\$'000
– Clients	165,399	432	–	–	165,831
– Brokers	87,989	–	–	–	87,989
– Clearing house	262,175	–	–	–	262,175
– Corporate finance services	2,736	1,467	–	–	4,203
– Underwriting business	33,427	7,365	–	–	40,792
Accounts receivable	551,726	9,264	–	–	560,990
Loans and advances	1,478,120	–	270,970	(270,970)	1,478,120
Margin loans to customers	6,416,790	–	28,031	(28,031)	6,416,790

At 31 December 2016	Neither past due nor impaired HK\$'000	Past due but not impaired HK\$'000	Impaired HK\$'000	Impairment allowance HK\$'000	Total HK\$'000
– Clients	218,413	5,022	–	–	223,435
– Brokers	86,155	–	–	–	86,155
– Clearing house	137,132	–	–	–	137,132
– Corporate finance services	10,790	421	–	–	11,211
– Underwriting business	125,533	1,560	–	–	127,093
Accounts receivable	578,023	7,003	–	–	585,026
Loans and advances	–	–	270,970	(270,970)	–
Margin loans to customers	5,123,260	–	8,260	(8,260)	5,123,260

For accounts receivable and margin loans to customers, the market value of securities pledged as collateral held by the Group were greater than outstanding balances.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The table below showed the market value of securities pledged as collateral from clients:

	2017 HK\$'000	2016 HK\$'000
Total market value of securities pledged as collateral in respect of margin loans to customers	<u>20,047,406</u>	<u>16,932,738</u>
Total market value of securities pledged as collateral in respect of overdue accounts receivable – clients	<u>211,662</u>	<u>227,440</u>

Ageing analysis of past due but not impaired accounts receivable

Accounts receivable

	Less than 30 days HK\$'000	31 to 60 days HK\$'000	61 to 90 days HK\$'000	More than 90 days HK\$'000	Total HK\$'000
At 31 December 2017					
Clients	143	3	–	286	432
Corporate finance services	–	–	–	1,467	1,467
Underwriting business	34	–	–	7,331	7,365
	<u>177</u>	<u>3</u>	<u>–</u>	<u>9,084</u>	<u>9,264</u>
At 31 December 2016					
Clients	4,130	169	50	673	5,022
Corporate finance services	221	–	–	200	421
Underwriting business	–	–	–	1,560	1,560
	<u>4,351</u>	<u>169</u>	<u>50</u>	<u>2,433</u>	<u>7,003</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

For loans and advances, the Group assess the loans using the following credit grading assessment.

Gross loans and advances – grading

	2017 HK\$'000	2016 HK\$'000
Pass	1,478,120	–
Special Mention	–	–
Substandard	–	–
Doubtful	–	–
Loss	270,970	270,970
Subtotal	<u>1,749,090</u>	<u>270,970</u>

The table below showed the market value of collateral from loans and advances.

	2017 HK\$'000	2016 HK\$'000
Total market value of collateral in respect of loans and advances	<u>1,457,138</u>	<u>–</u>

(c) Liquidity risk

Liquidity risk refers to the risk of the Group's failure to obtain sufficient funds at a reasonable cost and in a timely manner to pay due debts, perform other payment obligations and satisfy the capital requirements to carry on the Group's businesses in the ordinary course. The licensed subsidiaries are required to maintain at all times liquid capital no less than the stipulated level under the Financial Resources Rules, and report to the SFC our liquidity positions on a monthly basis. The Group is responsible for the management of liquidity risk with the aim to maintain sufficient cash and marketable securities, ensure the availability of funding through an adequate amount of committed credit facilities and assess the ability to close out market positions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The Finance and Accounting Department is responsible for compiling a daily cash position report in which the information of bank balances and loan balances of different maturities, expected cash inflows and outflows and outstanding loan facilities are all forecasted and computed. The Department would base on the report to monitor daily liquidity risk and foresee if any funding is required. Besides, some of the subsidiaries of the Group are regulated by SFC, those subsidiaries' liquid capital are calculated and assessed daily to fulfill the Financial Resources Rules.

The following table details the maturities analysis at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group is required to pay.

(i) Non derivatives

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Total HK\$'000
At 31 December 2017					
Borrowings	8,767,308	306,704	1,014,901	-	10,088,913
Subordinated loans from the ultimate holding company	1,606	3,057	1,010,621	-	1,015,284
Other payables	13,401	-	-	-	13,401
Accounts payable	390,668	-	-	-	390,668
Amount due to the ultimate holding company	6,080	-	-	-	6,080
Financial liabilities at fair value through profit or loss	18,858	-	-	-	18,858
	9,197,921	309,761	2,025,522	-	11,533,204

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(i) Non derivatives (Continued)

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Total HK\$'000
At 31 December 2016					
Borrowings	3,257,014	304,293	24,546	1,314,120	4,899,973
Subordinated loans from the ultimate holding company	1,221	2,324	1,005,932	-	1,009,477
Other payables	42,270	-	-	-	42,270
Accounts payable	115,351	-	-	-	115,351
Amount due to the ultimate holding company	5,806	-	-	-	5,806
Financial liabilities at fair value through profit or loss	18,446	-	-	-	18,446
	<u>3,440,108</u>	<u>306,617</u>	<u>1,030,478</u>	<u>1,314,120</u>	<u>6,091,323</u>

(ii) Derivatives settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include: commodity futures and currency futures contract.

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Total HK\$'000
At 31 December 2017					
Derivative financial instruments held for trading commodity futures					
Outflow	-	-	(27,312)	-	(27,312)
Inflow	-	-	27,284	-	27,284

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Derivatives settled on a gross basis (Continued)

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Total HK\$'000
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At 31 December 2016

Derivative financial instruments

held for trading Commodity futures

Outflow	(66,709)	-	-	-	(66,709)
Inflow	66,715	-	-	-	66,715

38.2 Capital risk management

The Group's and the Company's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are:

- (i) to comply with the requirements of the Hong Kong Securities and Futures Ordinance ("HKSF") for the Company's licensed subsidiaries in carrying various types of regulated activities;
- (ii) to support the Group's stability and growth;
- (iii) to optimise risk adjusted return to the shareholders; and
- (iv) to maintain a strong capital base to support the development of its business.

The subsidiaries of the Company licensed under the HKSF are also required to maintain adequate financial resources to support their businesses. The Securities and Futures (Financial Resources) Rules require a licensed corporation to maintain liquid capital which is not less than its required liquid capital. During the years, the Company's licensed subsidiaries have maintained adequate liquid capital to meet the requirement. During the years ended 31 December 2017 and 2016, the Company's licensed subsidiaries were regulated by the Hong Kong Securities and Futures Commission ("SFC") and they complied with the statutory capital requirement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.2 Capital risk management (Continued)

The Group and the Company manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group and the Company consists of share capital and reserves. The Group's and the Company's overall strategy remains unchanged throughout the years.

The Group has Capital Allocation policies. Directors, Finance and Accounting Department and Risk Management Department would discuss at the beginning of each year to set absolute and relative exposure limits of the capital to different classes of assets, after analysing the capital needs, potential returns and business risks of different segments of business. Throughout the year, the usage and allocation of capital would be closely scrutinised to make sure it would not be deviated from its plan. The purpose of these policies is to maximise the shareholders' return within a controllable risk level.

	2017 HK\$'000	2016 HK\$'000
Total borrowings (note 33)	11,068,242	5,848,015
Total equity	<u>6,360,115</u>	<u>3,986,118</u>
Gearing ratio	174.03%	146.71%

38.3 Fair Value estimation

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The table below provides further information regarding the valuation of material financial assets and liabilities under Level 3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Fair Value estimation (Continued)

	31/12/2017 HK\$'000	31/12/2016 HK\$'000	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Available-for-sale investments						
Club debentures	2,099	1,952	Recent transaction price	Liquidity discount rate	25%	(ii)
Unlisted equity	59,537	53,902	Allocated net asset value	Net asset value	N/A	(iii)
Unlisted fund	39,537	39,537	Allocated net asset value	Net asset value	N/A	(iii)
Unlisted fund	158,178	–	Recent transaction price	(i)	N/A	(iv)
Debt investments	194,000	–	Discount cash flow	Discount rate	6.5%	(ii)
Debt investments	358,372	–	Recent transaction price	(i)	N/A	(iv)
Preference shares	405,627	77,420	Recent transaction price	(i)	N/A	(iv)
Total	<u>1,217,350</u>	<u>172,811</u>				

	31/12/2017 HK\$'000	31/12/2016 HK\$'000	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss						
Unlisted equity	10,306	105,672	Market comparable companies/Allocated net asset value	Discount rate for lack of marketability/ Net asset value	20%-30%/N/A	(ii)/(iii)
Preference shares	346,331	–	Recent transaction price	(i)	N/A	(iv)
Unlisted fund	1,663,185	–	Recent transaction price	(i)	N/A	(iv)
Structured financial product	86,328	–	Guaranteed principal plus expected return	Expected rate	N/A	(v)
Total	<u>2,106,150</u>	<u>105,672</u>				

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Fair Value estimation (Continued)

- (i) The Directors of the Company consider that the financial position of these investments have no significant change since its recent transaction, and hence no adjustment to the recent transaction price is needed
- (ii) The higher the discount rate, the lower the fair value
- (iii) The higher the net asset value, the higher the fair value
- (iv) The higher the adjustment to the recent transaction price, the higher the fair value
- (v) The higher the expected rate, the higher the fair value.

The following table presents the changes in Level 3 instruments:

	31/12/2017 HK\$'000	31/12/2016 HK\$'000
Available-for-sale investments		
Beginning of the year	172,811	4,986
Addition during the year	1,009,850	173,584
Disposal during the year	(3,529)	–
Net gain/(loss) recognised in profit or loss	661	–
Net gain recognised in other comprehensive income	37,557	(5,759)
End of the year	<u>1,217,350</u>	<u>172,811</u>

	31/12/2017 HK\$'000	31/12/2016 HK\$'000
Financial assets at fair value through profit or loss		
Beginning of the year	105,672	10,128
Addition during the year	1,996,539	73,549
Disposal during the year	(97,030)	–
Net gain recognised in profit or loss	100,969	21,995
End of the year	<u>2,106,150</u>	<u>105,672</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Fair Value estimation (Continued)

The Group adopted consistent and transparent methodology basing on these valuation techniques above for determining fair value. Regardless of the valuation methodology used, once used, it should continue to be used until a new methodology will provide a better approximation of the investment's current fair value. The management expected that there would not be frequent changes in valuation techniques.

Sensitivity analysis

The following table details the Group's sensitivity to changes of unobservable inputs. The changes on one or more of the unobservable inputs would change the fair value of financial instruments in Level 3. The number shown below indicates an increase in profit after taxation/ total assets and other comprehensive income/equity where unobservable inputs have a reasonably possible shift as shown.

Change in liquidity discount rate

	2017		2016	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on other comprehensive income/equity	(210)	210	(195)	195

Change in net asset value

	2017		2016	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation/ total assets	–	–	8,824	(8,824)
Impact on other comprehensive income/equity	9,907	(9,907)	9,344	(9,344)

Change in adjustment to the recent transaction price

	2017		2016	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on other comprehensive income/equity	293,169	(293,169)	7,742	(7,742)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.3 Fair Value estimation (Continued)

Sensitivity analysis (Continued)

Change in expected rate

	2017		2016	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on other comprehensive income/equity	8,633	(8,633)	–	–

Change in discounted rate

	2017		2016	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on other comprehensive income/equity	(20,431)	20,431	–	–

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.4 Offsetting financial assets and financial liabilities

(a) Financial assets

The Group has net off the financial asset and financial liabilities with counterparties and clearing house for un-settled trades.

As at 31 December 2017

	Gross amount of recognised financial assets HK\$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'000
Accounts receivable from			
– Clients	487,049	(321,218)	165,831
– Brokers	96,468	(8,479)	87,989
– Clearing house	1,081,994	(819,819)	262,175
– Corporate finance services	4,203	–	4,203
– Underwriting business	40,792	–	40,792
Margin loans to customers	6,809,861	(393,071)	6,416,790
Total	8,520,367	(1,542,587)	6,977,780

As at 31 December 2016

	Gross amount of recognised financial assets HK\$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'000
Accounts receivable from			
– Clients	400,893	(177,458)	223,435
– Brokers	86,696	(541)	86,155
– Clearing house	642,593	(505,461)	137,132
– Corporate finance services	11,211	–	11,211
– Underwriting business	127,093	–	127,093
Margin loans to customers	5,355,874	(232,614)	5,123,260
Total	6,624,360	(916,074)	5,708,286

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

38. FINANCIAL RISK MANAGEMENT (Continued)

38.4 Offsetting financial assets and financial liabilities (Continued)

(b) Financial liabilities

As at 31 December 2017

	Gross amount of recognised financial liabilities HK\$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000
Accounts payable to			
– Clients	1,102,369	(714,289)	388,080
– Clearing house	822,407	(819,819)	2,588
– Brokers	8,479	(8,479)	–
Total	1,933,255	(1,542,587)	390,668

As at 31 December 2016

	Gross amount of recognised financial liabilities HK\$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000
Accounts payable to			
– Clients	490,214	(410,072)	80,142
– Clearing house	519,803	(505,462)	14,341
– Brokers	21,409	(541)	20,868
Total	1,031,426	(916,075)	115,351

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

39. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	31/12/2017 HK\$'000	31/12/2016 HK\$'000
Non-current assets		
Property and equipment	16,622	16,130
Investments in subsidiaries	1,441,615	1,240,059
Subordinated loans to subsidiaries	200,000	200,000
Available-for-sale investments	4,093,196	2,701,882
Loans and advances	384,572	–
Total non-current assets	6,136,005	4,158,071
Current assets		
Subordinated loans to subsidiaries	200,000	200,000
Loan to a subsidiary	132,634	131,614
Loans and advances	1,093,548	–
Accounts receivable	19	19
Other receivables and prepayments	145,742	57,077
Amount due from the ultimate holding company	2,530	1,460
Amounts due from subsidiaries	130,895	839,900
Amounts due from related parties	–	14,447
Financial assets at fair value through profit or loss	2,046,459	123,440
Derivative financial assets	831	359
Cash and bank balances	670,727	55,060
Total current assets	4,423,385	1,423,376
Total assets	10,559,390	5,581,447
Equity and liabilities		
Equity attributable to shareholders of the Company		
Share capital	3,909,555	2,000,000
Retained earnings	470,010	226,797
Revaluation reserve	9,467	(16,321)
Total equity	4,389,032	2,210,476

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

39. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31/12/2017 HK\$'000	31/12/2016 HK\$'000
Non-current liabilities		
Borrowings	–	300,000
Current liabilities		
Borrowings	5,833,747	2,683,875
Provision for staff costs	17,499	12,920
Other payables and accrued expenses	17,223	24,520
Amounts due to subsidiaries	301,086	349,302
Derivative financial liabilities	803	354
Total current liabilities	6,170,358	3,070,971
Total liabilities	6,170,358	3,370,971
Total equity and liabilities	10,559,390	5,581,447
Net current liabilities	(1,746,973)	(1,647,595)
Total assets less current liabilities	4,389,032	2,510,476

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 27 March 2018 and signed on its behalf by:

Tan Yueheng,
Chairman and Executive Director

Cheng Chuange,
Deputy Chief Executive Officer &
Executive Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

40. RESERVES OF THE COMPANY

	Retained earnings HK\$'000	Revaluation reserve HK\$'000
At 1 January 2016	110,719	(7,723)
Profit for the year	116,078	–
Other comprehensive loss for the year	–	(8,598)
Total comprehensive income/(loss) for the year	116,078	(8,598)
At 31 December 2016	226,797	(16,321)
At 1 January 2017	226,797	(16,321)
Profit for the year	243,213	–
Other comprehensive income for the year	–	25,788
Total comprehensive income for the year	243,213	25,788
At 31 December 2017	470,010	9,467

41. CASH HELD ON BEHALF OF BROKERAGE CLIENTS AND ASSET MANAGEMENT CLIENTS

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage and asset management business.

The Group

(a) Segregated clients' accounts with HKFE Clearing Corporation Limited ("HKCC")

	2017	2016
Segregated clients' accounts with HKCC	72,886	72,769

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2017

41. CASH HELD ON BEHALF OF BROKERAGE CLIENTS AND ASSET MANAGEMENT CLIENTS

The Group (Continued)

- (b) *Segregated clients' accounts with SEHK Options Clearing House Limited ("SEOCH") in conjunction with its futures and options business*

	2017	2016
Segregated clients' accounts with SEOCH	<u>57,013</u>	<u>46,978</u>

- (c) *Segregated clients' accounts with authorised institutions ("AIs") as a result of its normal business transactions, which are not otherwise dealt within the financial information*

	2017	2016
Segregated clients' accounts with AIs	<u>3,927,044</u>	<u>3,484,068</u>

42. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

	HK\$'000
As at 1 January 2017	4,848,015
Net drawdown of borrowings	4,582,905
Increase in collateralized cash	623,000
Foreign exchange adjustments	<u>14,322</u>
As at 31 December 2017	<u>10,068,242</u>

43. SUBSEQUENT EVENT

Profit distribution for 2017

On 27 March 2018, the Board of Directors proposed the 2017 final dividends of HK\$0.08 per shares, amounting to HK\$218,751 thousand. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Glossary

“AUM”	the amount of assets under management
“Articles of Association”	the articles of association of the Company, which became effective on the Listing Date
“Board” or “Board of Directors”	the board of Directors
“BOCOM”	Bank of Communications Co., Ltd. (交通銀行股份有限公司), established in 1908, a company registered in the PRC as a joint stock limited liability company on 24 December 2004, the H shares and A shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively, and the ultimate controlling shareholder of the Company
“BOCOM (Hong Kong Branch)”	the Hong Kong Branch of BOCOM
“BOCOM Group”	BOCOM and its subsidiaries (excluding the Group)
“BOCOM International Asset Management”	BOCOM International Asset Management Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of the Company
“BOCOM International Futures”	BOCOM International Futures Limited, a company incorporated in Hong Kong with limited liability, a subsidiary of BOCOM International Securities and an indirect subsidiary of the Company
“BOCOM International Securities”	BOCOM International Securities Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of the Company
“BOCOM International (Shanghai)”	BOCOM International (Shanghai) Equity Investment Management Company Limited (交銀國際（上海）股權投資管理有限公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“BOCOM Nominee”	Bank of Communications (Nominee) Company Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of BOCOM and a shareholder of the Company holding Shares on trust for BOCOM
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

“Company”	BOCOM International Holdings Company Limited (交銀國際控股有限公司), a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Corporate Governance Code”	Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules
“Director(s)”	director(s) of the Company
“Expectation Investment”	Expectation Investment Limited, a company incorporated in Hong Kong with limited liability, an indirect subsidiary of BOCOM and a shareholder of the Company
“FED”	Federal Reserve System of the US
“GDP”	gross domestic product
“Group” or “we” or “us”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IPO”	initial public offering
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	19 May 2017, the date on which the Shares were first listed on the Stock Exchange and from which dealings in the Shares on the Stock Exchange commenced
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOP”	Macau Pataca, the lawful currency of macau
“PRC” or “China”	People’s Republic of China
“Prospectus”	the prospectus of the Company dated 5 May 2017
“RMB”	Renminbi, the lawful currency of the PRC



Glossary

“SFC”	Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited
“US”	the United States of America
“USD”	United States dollars, the lawful currency of US
“Year”	the year ended 31 December 2017
“YoY”	year-on-year



交銀國際
BOCOM International

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